General Motors Annual Report 1986

COMPETITION: The Fight for Continued Worldwide Leadership

CADILLAC ALLANTÉ

Sales at all-time high of $103 billion

Highlights

(Dollars in Millions Except Per Share and Hourly Amounts)	1986	1985	1984
Sales and Revenues	$102,813.7	$96,371.7	$83,889.9
Worldwide Factory Sales of Cars and Trucks (units in thousands)	8,576	9,305	8,256
Net Income			
Amount	$ 2,944.7	$ 3,999.0	$ 4,516.5
As a percent of sales and revenues	2.9%	4.1%	5.4%
As a percent of stockholders' equity	9.6%	13.5%	18.7%
Earnings attributable to:			
$1-2/3 par value common stock	$ 2,607.7	$ 3,883.6	$ 4,498.3
Class E common stock (issued in 1984)	$ 136.2	$ 103.8	$ 5.7
Class H common stock (issued in December 1985)	$ 190.0	–	–
Earnings per share attributable to:			
$1-2/3 par value common stock	$8.21	$12.28	$14.27
Class E common stock (issued in 1984)	$2.13	$1.57	$0.16*
Class H common stock (issued in December 1985)	$2.97	–	–
Cash dividends per share of common stocks:			
$1-2/3 par value common	$5.00	$5.00**	$4.75***
Class E common (issued in 1984)	$0.40	$0.195	$0.045*
Class H common (issued in December 1985)	$0.60	–	–
Taxes			
United States, foreign and other income taxes (credit)	($ 300.3)	$ 1,630.3	$ 1,805.1
Other taxes (principally payroll and property taxes)	3,226.9	3,185.6	3,572.4
Total	$ 2,926.6	$ 4,815.9	$ 5,377.5
Taxes per share of $1-2/3 par value common stock	$7.00	$14.43	$16.98
Investment as of December 31			
Cash and marketable securities	$ 4,018.8	$ 5,114.4	$ 8,567.4
Working capital	$ 3,920.3	$ 1,957.5	$ 6,276.7
Stockholders' equity	$ 30,678.0	$29,524.7	$24,214.3
Book value per share of common stocks:			
$1-2/3 par value common	$83.09	$79.13	$72.16
Class E common (issued in 1984)	$21.28	$20.34	$18.04*
Class H common (issued in December 1985)	$41.58	$39.76	–
Number of Stockholders as of December 31 (in thousands)			
$1-2/3 par value common and preferred	868	927	957
Class E common	456	482	623
Class H common	540	592	–
Worldwide Employment (in thousands)			
GM (excluding units listed below)	734	762	731
GMAC and its subsidiaries	16	14	14
Electronic Data Systems (effective 10/18/84)	45	35	15
Hughes Aircraft Company (effective 12/31/85)	81	–	–
Average number of employes	876	811	748†
Total payrolls (including profit sharing in 1985 and 1984)	$ 28,146.1	$25,639.1	$22,505.4
Total cost of an hour worked—U.S. hourly employes#	$24.00	$23.40	$22.60

Earnings and earnings per share attributable to common stocks in 1985 and 1984 have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985.

*Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

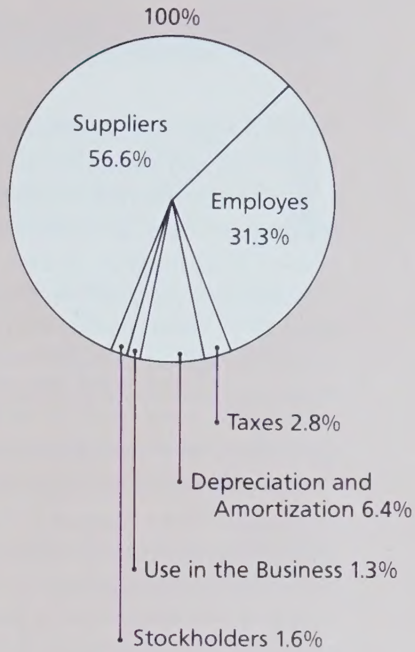
**In addition, in December 1985 holders of $1-2/3 par value common stock received a dividend of one share of Class H common stock for every 20 shares of $1-2/3 par value common stock held.

***In addition, in December 1984 holders of $1-2/3 par value common stock received a dividend of one share of Class E common stock for every 20 shares of $1-2/3 par value common stock held.

#Excludes Hughes and EDS.

†Includes only 3,000 employes for EDS, which represents the annualized average for the portion of the year which followed its acquisition by GM in October 1984.

What Happened to the Revenue GM Received During 1986



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COVER

Aero 2003A—a highly aerodynamic, fully functional Chevrolet concept vehicle designed to explore possibilities for the cars of tomorrow—illustrates the spectrum of expanding and exciting product opportunities for General Motors.

Message to Stockholders

In 1986, General Motors continued to lead industrial organizations worldwide. During one of the automobile industry's most competitive years ever, we achieved record sales and revenues of $102.8 billion, and we emerged from the year with a strong balance sheet and cash flow capabilities. At the same time, we remained on target with our strategic redirection designed to meet the challenges of the industrial revolution confronting all American business and industry.

Quest for Continued World Leadership

The hallmark of our industry is now the increased pace of change. Technological innovations, styling, pricing, manufacturing capabilities, and marketing have always been important, but the degree of increased competitiveness is truly a phenomenon of very recent origins. Foreign competition and the emergence of the global economy have created an environment never before experienced by the industry and which defines the arena in which we will compete from now on.

General Motors is boldly confronting those challenges in order to realize our quest for continued world leadership. We are following a carefully drawn strategy—to build quality products by melding technology and people in new combinations. Our goal is both to benefit the Corporation now and to put us in the strongest possible position to serve all who have a stake in General Motors in the years ahead.

Building for the Future

Massive change is never easy. The challenges we have experienced in 1986 are exactly what would be expected in a huge organization literally rebuilding itself from the inside out.

Six new "green field" plants in five years; tremendous investments in retooling and modernizing 12 other facilities; front-wheel drive for mid-size and full-size cars—all of those actions and more have been taken to ensure GM's competitive edge in the future. In order to both augment our future potential and maintain our current leadership position, we installed the more efficient new systems, while continuing the older systems during the transition process. It is those inefficient and redundant systems that will be phased out in the plant closings announced in 1986.

We have expanded our research and development and our information systems capabilities through acquisitions, including some of the most technologically advanced, high-potential companies in the world. We have come through the most costly phase of our plan, and our strong 1986 sales have enabled us to put the heaviest part of that expense behind us, while still showing good earnings and still paying a good return to our investors.

Sales Over $100 Billion for First Time

The continuing strength of GM was apparent in our remarkable achievement in 1986. Sales and revenues for the first time exceeded $100 billion, setting a record for the fourth successive year and surpassing the 1985 mark of $96.4 billion.

This performance represented worldwide factory sales to GM dealers totaling 8.6 million units, a decline from the 9.3 million units sold in 1985. Overseas sales were near record levels.

The decline in net income from $4.0 billion in 1985 to $2.9 billion in 1986 reflected both the costs of marketing incentives and a special provision for scheduled plant closings and other restructurings of $1.3 billion. The special provision was partially offset by related specific tax benefits, resulting in a net reduction in earnings of $291.3 million. Equity income of $1.2 billion, primarily from General Motors Acceptance Corporation which posted record profits on the highest volume of vehicle financing in its history, helped 1986 earnings.

Management Strategy

The 1986 results represent the beginning benefits of a Corporation-wide strategy developed in the early 1980s. At that time it was clear that General Motors must embark on a strategic redirection. The priorities of a previous era had been significantly altered by an industrial revolution characterized by rapidly changing technology and an increasingly global economy. To address that development, we are focused on five strategic goals:

- Producing products which will set industry standards in quality, performance, styling, safety, and value for our customers;
- Replacing older, less-efficient manufacturing facilities with new, modernized plants and equipment;
- Developing a new production system involving a strengthened partnership with our employes and greater participative management to achieve the highest possible levels of productivity and improve our market responsiveness;
- Implementing a major cost-reduction program, which includes assuring the most competitive sources of components and parts, and eliminating vertical integration where it impedes achievement of this objective;
- Strengthening GM's partnerships with Electronic Data Systems Corporation and Hughes Aircraft Company to ensure GM's leadership in all phases of automotive and manufacturing technology, as well as actively developing their traditional businesses.

Management Initiatives

In pursuing these strategies, your management has moved forward with careful planning and bold actions to strengthen the basic foundation of your Corporation. Here are just a few of the key management initiatives taken in recent years— principally in our automotive operations—that are contributing to overall corporate strength:

1981:

- Worldwide Truck & Bus Group formed. This new group has responsibility for the design, engineering, manufacturing, sales, and service of all GM trucks, buses, and vans.

1982:

- GMFanuc Robotics Corporation formed. This joint venture is now the largest supplier of robots in the United States.

1983:

- NUMMI, a joint venture with Toyota, formed. More than 2,000 GM employes have visited its Fremont, California plant to study its production methods.
- Saturn project announced. The Saturn Corporation will produce an all-new world-class small car by 1990. It will benefit from new production methods and be sold through a new line of dealerships.
- Magnequench permanent magnet announced. Initially being used to make starter motors half the size of conventional units, Magnequench has potential for electrical, medical, and magnetic-device applications worldwide.

1984:

- North American Passenger Car Operations reorganized. Five U.S. car divisions, GM Assembly Division, Fisher Body Division, and GM of Canada were restructured into two integrated car groups to improve efficiency.
- Daewoo Motor Company, Ltd., recapitalized. This joint venture in Korea is building new small cars engineered by Adam Opel, GM's subsidiary in the Federal Republic of Germany.
- "Factory of the Future" announced. Saginaw Division's new automated plant will contain the most advanced technology and be a model factory for all industry.
- Electronic Data Systems Corporation acquired. EDS, a foremost electronic data systems company, is a major "building block" in our plan to become a 21st Century corporation.

1985:

- Hughes Aircraft Company acquired. Hughes is one of the world's premier electronic manufacturing companies, with large-scale integrated systems capabilities, providing a second major "building block" for GM's future.

1986:

- Group Lotus plc acquired. Based in the United Kingdom, Lotus is a highly innovative engineering consulting and performance-car manufacturing firm.
- GM/Volvo joint ventures formed. These joint ventures will develop, produce, and market heavy-duty trucks for sale in the United States and Canada.
- GM of Canada/Suzuki joint venture formed. This joint venture will manufacture small cars and sport utility vehicles in Canada.
- Service Parts Operations restructured. This action will strengthen GM's competitive position in automotive aftermarket sales.

Cost-Reduction Goals

In the current intensely competitive environment, ongoing cost reduction is a prime requirement for success in the automobile industry. We have established tough, near-term goals for profit improvement throughout the Corporation. The impact of implementing our long-term strategies does have a near-term cost. However, we anticipate that our cost improvement plans will take effect quickly and enable us to end 1987 on a positive earnings note.

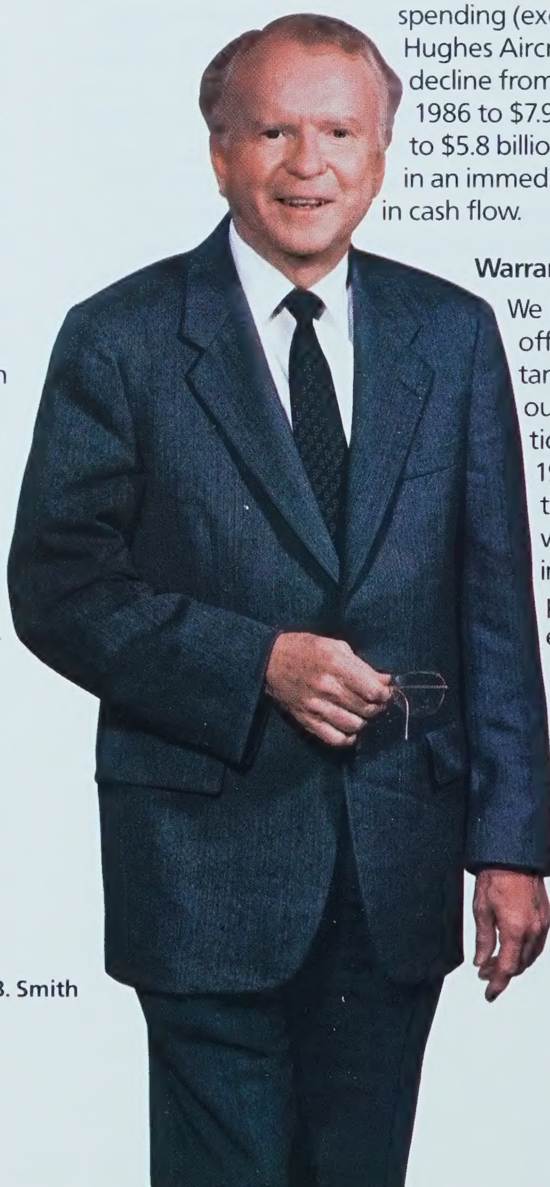
Cost reductions will be achieved in a number of areas, including the following:

- GM's worldwide salaried employment will be reduced from its mid-1986 level by 25,000 employes in 1987 and an additional 15,000 employes by the end of 1988. This reduction in employment will result in cost savings of $500 million during 1987 and accelerate to annual savings of $2 billion in 1989 and beyond.
- Corporate staff expense will be reduced each year, resulting in a total annual reduction of $200 million by 1990.
- Divestitures, restructurings, and joint ventures recently implemented will improve our profit position beginning in 1987. The most notable divestitures and restructurings are: the sale of GM's South African subsidiary; our withdrawal from the European heavy truck business; the planned sale of our North American transit bus operations to Greyhound; and the restructuring of GM-Holden's Limited in Australia. The joint ventures between GM and Volvo in heavy-duty trucks and the proposed joint venture between GM and Deere & Company in diesel engines will improve GM's profitability in these businesses. We anticipate annual savings of over $200 million starting in 1987 related to these actions.
- Plant closings will result in significant fixed-cost reductions, with the annual savings approaching $500 million by 1990.
- The phasing out of uncompetitive or obsolete component manufacturing operations will reduce costs at least $500 million annually by 1990.

In addition to these specific cost-reduction programs, GM is committed to annual cost reductions through improved assembly plant efficiencies, more effective supplier relationships premised on shared goals and objectives, and enhanced product quality and related reductions in warranty expense. These and additional ongoing cost reductions, which will be significant, reflect improvements in manufacturing efficiency made possible by our modernized facilities and improved manufacturing processes. In 1986, total annual cost reductions amounted to $2 billion, and in 1987 the Corporation anticipates up to $3 billion in further cost reductions.

We expect that these cost-reduction efforts will accumulate to $10 billion annually by 1990. Based on anticipated market and economic conditions, these cost savings are designed to enhance stockholder value and promote achievement of an after-tax return on stockholders' equity of at least 15 percent by 1990.

Meanwhile, our capital spending program of recent years is nearing completion with the result that capital spending (excluding EDS and Hughes Aircraft Company) will decline from $10.6 billion in 1986 to $7.9 billion in 1987, and to $5.8 billion in 1989, resulting in an immediate improvement in cash flow.



Roger B. Smith

Warranty Expanded

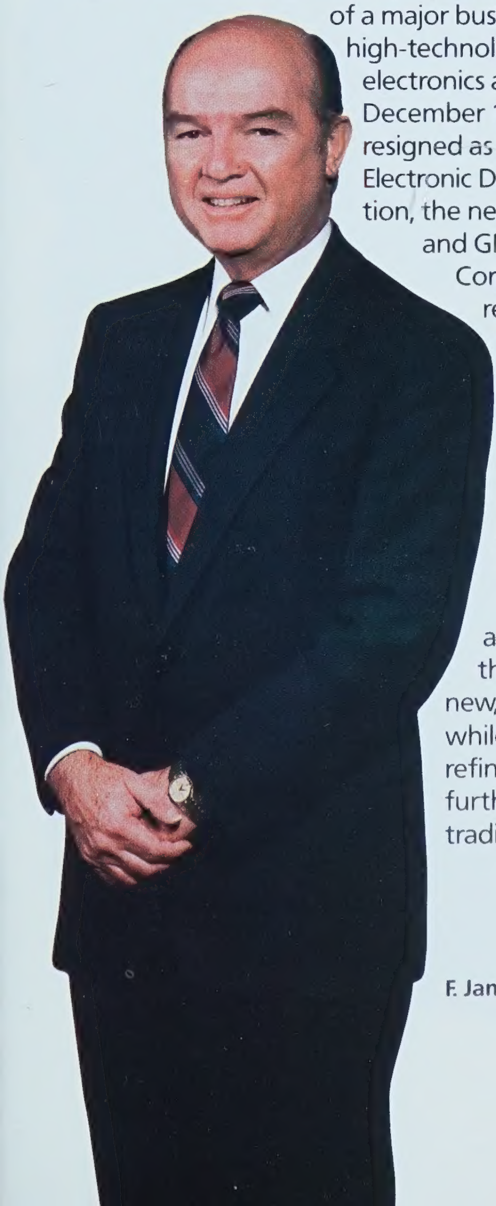
We have been able to offer our customers tangible benefits of our strategic redirection. For example, in 1987 we introduced the first six-year warranty coverage in the industry, made possible by the enormous investments and quality improvements GM has made over the past five years. The new warranty coverage

provides six-year, 60,000-mile powertrain and six-year, 100,000-mile corrosion protection on all 1987-model passenger cars and light-duty trucks and vans produced by GM in North America.

We also have new products that will rekindle buyers' excitement for GM vehicles. Products like Chevrolet's Corsica and Beretta, Pontiac's Bonneville, Cadillac's Allanté, and the Chevrolet C/K and GMC Sierra full-size pickup line establish us as the industry design leader. Among the first products of the reorganization of GM's worldwide vehicle groups, they were developed in accordance with our new product strategy. By deproliferating our product line and sharpening the images of our car divisions, we are moving to become fully market-driven in the most demanding time in our history.

Another recent step in the restructuring of GM, from which we are already realizing a payoff, was the formation of a major business unit for our high-technology defense and electronics activities. Announced December 1, when Ross Perot resigned as chief executive of Electronic Data Systems Corporation, the new unit aligns EDS and GM Hughes Electronics Corporation in the same reporting relationship. This will assure the smooth integration of GM's major acquisitions of 1984 and 1985, EDS and GMHE's Hughes Aircraft Company subsidiary.

The year 1987 will be a time to put together the elements of the new, restructured GM while continuing to refine the organization further by cultivating our traditional strengths and building new ones. The realities of competition require that we reduce the size of our work force. And, as the work force shrinks, we will keep our commitment to equal employment opportunity in hiring and promoting minorities and women. We will negotiate new contracts with the United Auto Workers and other unions. These will reinforce our new partnership of cooperation, while reconciling the needs of our employes and the need for GM to be competitive.



F. James McDonald

Superior Return on Investment

No small order. But General Motors will not achieve its goals by backing away from challenges. Building on the foundations established over the years and made stronger since 1981, we welcome future opportunities and challenges. We renew our determination that the General Motors of tomorrow will be a customer-oriented, high-quality, cost-competitive company whose "engines of change" are its products, its technology, and the commitment of its people. As always, General Motors' greatest strength lies in the professional strengths and enthusiastic dedication of its people, and we will continue to hire and retain the best people possible. Above all, General Motors management is committed to earning a superior return on investment for our stockholders.

February 5, 1987

Chairman

President

Product Leadership

General Motors enjoyed an excellent sales year in 1986 in the face of the toughest competition in history, both here and abroad. Foreign manufacturers have increased their penetration of the North American automotive market, expanding their base and increasing their presence as domestic producers. GM's performance, however, remains strong.

A Competitor Second to None

During 1986, GM sold over six million cars and trucks in the United States—and here are some highlights of that sales leadership achievement. Of all the nameplates offered for sale in this country during 1986, five of the top ten selling entries were GM cars. Chevrolet outsold Ford by over 300,000 cars in 1986. Pontiac dealers increased their market share in each of the last three years. Oldsmobile was the third best-selling brand in this country for the 12th year in a row. Buick, GM's fourth leading sales division, outsold the leading Japanese nameplate in the United States—Honda—by over 70,000 units. And Cadillac sold nearly as many high-group cars as the total of Mercedes, BMW, Volvo, Porsche, Jaguar, and all other European manufacturers of luxury car lines.

GM has many more accomplishments to be proud of and upon which to build an even greater future. GM's all-new car models offered in 1987 demonstrate the Corporation's constant commitment to quality, distinctive design, and innovation. Chevrolet has an exclusive pair of compacts, the Corsica sedan and Beretta coupe; Pontiac has introduced the Bonneville

From body/chassis "marriage" on the assembly line to the final scrutiny of a quality audit, GM people aim for perfection in building the new Chevrolet Beretta.

full-size sedan; Cadillac is offering the Allanté personal ultra-luxury convertible; and later in the year Pontiac will introduce the LeMans subcompact.

A New Passenger Car Strategy

GM plans to become more competitive by pursuing a new four-part passenger car strategy. The strategy begins with reducing the number of GM models: fewer body styles, trims, options, and powertrains. This means lower costs and increased profitability.

The second part of the strategy calls for each division to focus its market image carefully and to make its products truly different and especially appealing to its

CHEVROLET BERETTA

Every GM vehicle is put through rigorous factory tests before reaching a dealer's showroom.

target customers. GM's all-new models for 1987 sharpen divisional identities.

The third part of the strategy emphasizes core products—the models that account for 80 percent of a division's volume. This focus makes more efficient use of technical resources and can mean substantial cost savings, better quality, and higher profit per car.

The fourth part of the strategy, in recognition of the fact that the market is increasingly fragmented, requires GM to pursue attractive "niches." Specialty segments can be pursued without detracting from the core products. A case in point: Cadillac's ultra-luxury Allanté convertible, being produced in conjunction with Pininfarina, the renowned Italian coachbuilder.

Products Global in Nature

The 1987 Allanté makes the ultimate statement about elegance and world class. Built in Turin, Italy, Allanté bodies are shipped by air to GM's Detroit-Hamtramck plant where the cars are assembled.

Chevrolet Sprint is produced by Suzuki, an associated company in Japan, and will be produced at Ingersoll, Ontario, by a new joint venture of Suzuki and GM of Canada. Pontiac's new LeMans is designed by GM's Adam Opel subsidiary based in the Federal Republic of Germany and produced by Daewoo Motor Company, Ltd., an associated company in South Korea.

Meanwhile, Opel has enhanced its credentials at home where the Opel Omega/ Vauxhall Carlton was named European Car of the Year for 1987. Its selection by a jury of automotive journalists from 17 countries evidenced GM's strong product position in Europe. This is the second time in three years that GM has won the honor. No other manufacturer has done that, and no other manufacturer has matched GM's recent growth in European sales.

New Pickup Trucks Key to Success

In 1986, four of the top ten best selling trucks were GM products. General Motors is improving its cost structure and sales thrust by concentrating its resources on the growing light-duty and medium-duty business where it is the leader.

In the vanguard in streamlining GM's truck lineup are the Chevrolet C/K and GMC Sierra, totally new full-size pickup trucks. Because they typically outsell any car model, full-size pickups are the key to success in the intense light-duty truck competition. GM sold 1.7 million light-duty trucks last year in North America and expects to maintain volume at that level in 1987.

Lighter and more fuel efficient, yet just as rugged as the trucks they replace, the new pickups are being introduced in April. Manufacturing locations include GM's newest and most modern truck assembly plant at Fort Wayne, Indiana, as well

CHEVROLET CORSICA CL

as modernized facilities in Pontiac, Michigan and Oshawa, Ontario.

Bringing these operations on stream was significant for the roles played by GM's Electronic Data Systems Corporation and GM Hughes Electronics Corporation subsidiaries. EDS developed the software for the automated operations. A Hughes Aircraft Company team tested the programs, using techniques applied to the large-scale spacecraft and radar systems which are a Hughes specialty.

In a move to strengthen GM's marketplace position in heavy-duty trucks, GM and Volvo of Sweden have formed joint ventures to produce and market this size truck in the United States and Canada. Volvo will own at least 65% of the joint ventures and has management responsibility.

A Product Quality Environment

Launching new products in new plants tests the interaction of high-technology systems with a work culture and a management-employe team committed to achieving the quality that customers require and expect. No product strategy succeeds without product quality. It is among the most important attributes that differentiate automobile manufacturers in the minds of today's customers.

GM's commitment to quality and customer satisfaction extends from design through delivery. This includes education and training activities in all aspects of the GM quality improvement process as well as better communication between GM and its dealers. For example, Chevrolet has just undergone a major restructuring and consolidation of its sales organization to improve the communications link between the division and its dealers—effectively moving the factory closer to the customer.

General Motors has made significant improvement in the quality of its vehicles in recent years and is committed to further advances in areas of safety, structural integrity, comfort, durability, ride and handling, maintenance requirements, and corrosion protection. In fact, in early 1987,

WORLDWIDE FACTORY SALES

(Units in Thousands)	CARS			TRUCKS & BUSES			TOTAL		
	1986	**1985**	**1984**	**1986**	**1985**	**1984**	**1986**	**1985**	**1984**
United States	4,302	4,882	4,338	1,520	1,537	1,338	5,822	6,419	5,676
Canada	545	562	549	192	280	277	737	842	826
Overseas*	1,783	1,762	1,485	234	282	269	2,017	2,044	1,754
TOTAL	6,630	7,206	6,372	1,946	2,099	1,884	8,576	9,305	8,256

*Includes units which are manufactured overseas by other companies and which are imported and sold by General Motors and affiliates.

our internal audits showed substantial improvements in quality levels over the previous year, putting GM ahead of domestic competition in several key market segments and, overall, much closer to major overseas producers.

GM's new warranty is a bold statement of confidence in the long-term quality, reliability, and durability of its products. The warranty provides six-year, 60,000-mile powertrain and six-year, 100,000-mile corrosion protection coverage on 1987-model passenger cars and light-duty trucks and vans produced by GM in North America, retroactive to the start of the model year. GM's Assurance Plan for the Cadillac Allanté provides full seven-year, 100,000-mile coverage, going well beyond the powertrain to cover all major components and parts, from the air conditioner down to the suspension system. The coverage also includes seven-year, 100,000-mile protection from corrosion.

Emphasizing our commitment to leadership in safety, GM has incorporated rear-seat lap/shoulder belts as standard equipment in selected 1987 North American-built vehicles. The belts will be phased into production for all North American models by the 1989 model year. GM is the first U.S. automaker to standardize rear-seat lap/shoulder belts, which continue to be available as a dealer-installed accessory.

The new products from "today's GM" are just the initial wave of what's coming in the years ahead—General Motors products competitive in quality, price, and styling with anyone, anywhere in the world.

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RETAIL UNIT SALES OF CARS AND TRUCKS WORLDWIDE

(Units in Thousands)	1986	1985	Change from '85
Worldwide Industry	41,137	39,882	1,255
GM	8,825	8,910	(85)
As % of worldwide	21.4%	22.1%	(0.7%)
United States:			
Industry	16,336	15,738	598
GM: cars	4,693	4,692	1
trucks	1,593	1,653	(60)
total	6,286	6,345	(59)
As % of U.S.	38.5%	40.3%	(1.8%)
Foreign sponsored	4,243	3,711	532
As % of U.S.	26.0%	23.6%	2.4%
Canada:			
Industry	1,515	1,532	(17)
GM	554	537	17
As % of Canada	36.5%	35.1%	1.4%
International:			
Industry	23,286	22,612	674
GM: cars	1,726	1,738	(12)
trucks	259	290	(31)
total	1,985	2,028	(43)
As % of international	8.4%	8.6%	(0.2%)
GM cars & trucks:			
Europe	1,370	1,324	46
West Germany	424	382	42
United Kingdom	329	350	(21)
As % of Europe	10.4%	10.7%	(0.3%)
Latin America	343	362	(19)
Brazil	205	206	(1)
Mexico	32	58	(26)
Venezuela	54	50	4
Africa	45	58	(13)
Middle East	46	68	(22)
Asia/Pacific	176	211	(35)
Australia	96	131	(35)

Retail unit sales of General Motors vehicles totaled 8.8 million units in 1986, accounting for 21% of free world sales. The accompanying chart compares 1986 and 1985 results.

Armed with a coding device that allows him to communicate directly with assembly operations, a body inspector keys in any visible fit-and-finish faults, assuring that they are quickly corrected.

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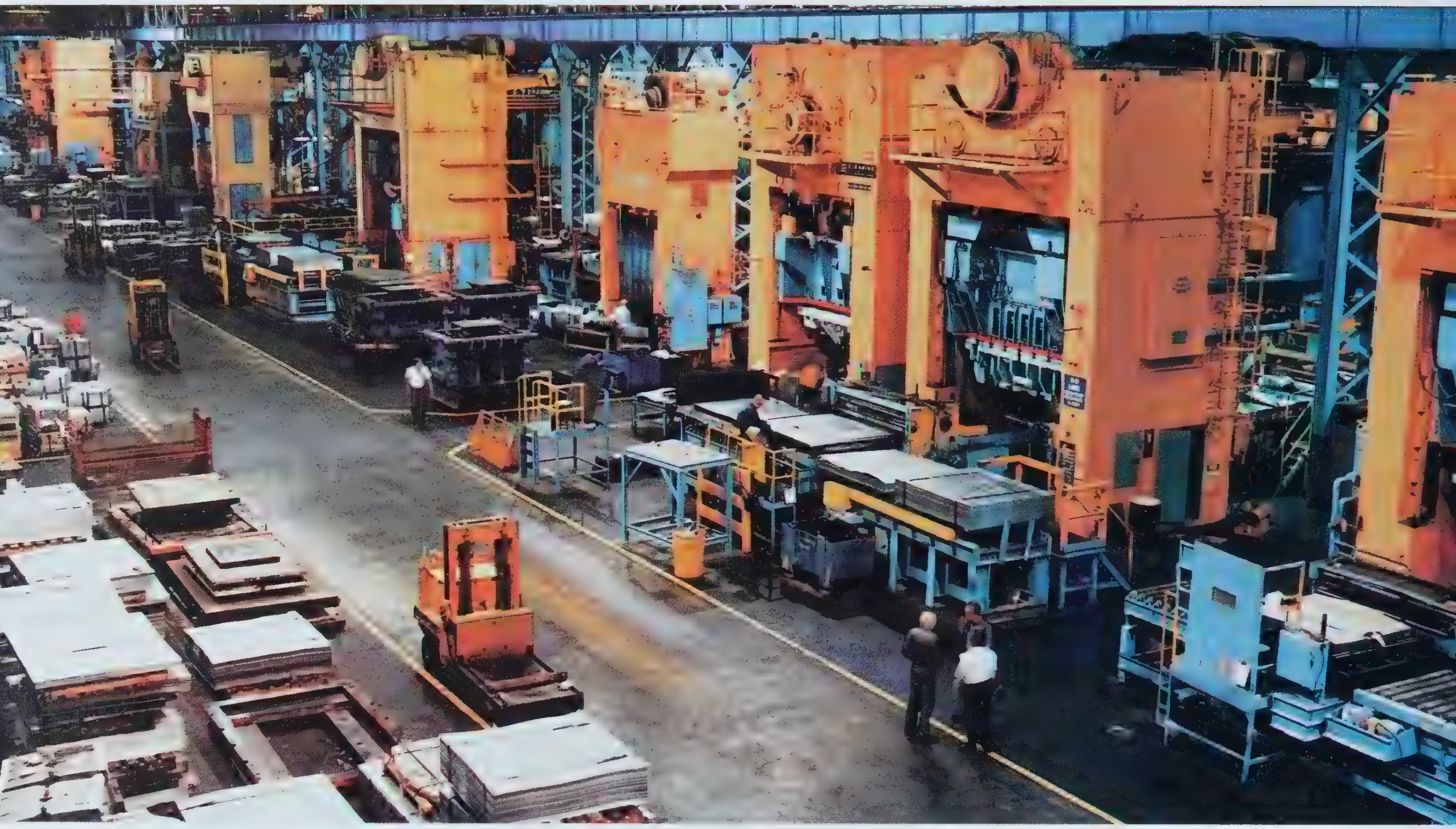
Technological Advancement



In today's environment, much of the opportunity for competitive success rests with the development of new, innovative technology for use in product design and manufacturing processes. Equally critical is a commitment by management to utilize technical expertise so that the application of that expertise to every aspect of our business can proceed quickly and to the fullest extent possible. And General Motors has substantially strengthened its ability both to advance and to use the full potential of technology.

In the past few years, GM has taken bold steps to expand and diversify its outstanding technological resources aimed at improving research, design, manufacturing and other key operations of the business. Important steps toward these goals have involved two major acquisitions and a series of agreements with entrepreneurial companies to achieve capabilities in manufacturing systems, machine vision, artificial intelligence, robotics, computer technology, electronics, and even satellites.

Investing in Sophisticated Technology

Today's automobile customers are demanding a level of sophistication that only leading-edge technology can provide. The automobile industry is moving rapidly toward a day when virtually everything within a car will be electronically controlled. In the past five years, GM has invested more in electronic-based technology than anyone else in the business. The result? The most dramatic modernization of products, plants, and processes in GM's history.

Product development time is being shortened with computer-aided-design and manufacturing. Further advances are being made with simultaneous engineering—the concept of getting everyone involved at the earliest stages of design, engineering, and manufacturing. New, flexible automation will allow changing a machine in minutes and a line or an entire plant from one product to another in a matter of days rather than weeks or months. Manufacturing Automation Protocol (MAP) allows different automated

New and modern automated presses (left) stamp galvanized metal floor panels to specification for C/K and Suburban trucks 34 percent faster than conventional machines.

A GMFanuc robot applies sealant to pickup truck cabs and beds as a corrosion deterrent.

machines on the factory floor to "talk" to and exchange information with each other. This makes possible the improved efficiency and quality production of computer-integrated factories.

GM's scientists and engineers are closely examining virtually every avenue in which advanced technology will help GM to improve product quality and become even more flexible in responding to changing market demands. For example, the formation of the Saturn Corporation represents a new approach to all aspects of auto production—an effective integration of human resources, advanced technology, and electronic business systems. Saturn is an aggressive response to the challenge of the imports and will also serve as a learning laboratory for improved competitiveness for all of General Motors.

In Saginaw, Michigan, work is progressing on GM's Factory of the Future project. Called Saginaw Vanguard, this project is a joint effort between Saginaw Division and GM's Advanced Engineering Staff, in cooperation with the United Auto Workers. Automation and flexibility are the goals for the production and quality control systems being developed. This manufacturing facility will be among the most advanced of its type in the world.

New Partners Contribute

The technological explosion that GM is experiencing has created the need to pursue outside business opportunities for a broader, deeper powerhouse of technology. Since January 1981, GM has negotiated over a dozen development agreements and equity acquisitions contributing to this goal. For example, GM has acquired Group Lotus plc, an engineering consulting and performance-car manufacturing firm based in the United Kingdom. Lotus is world-renowned in the application of engine, vehicle dynamics, composites, aerodynamics, and other automotive technologies.

GM also has acquired two major high-tech companies—Electronic Data Systems Corporation (EDS) and Hughes Aircraft Company. These two companies in particular provide General Motors with leading-edge technology combined with more

BUICK SKYLARK LIMITED

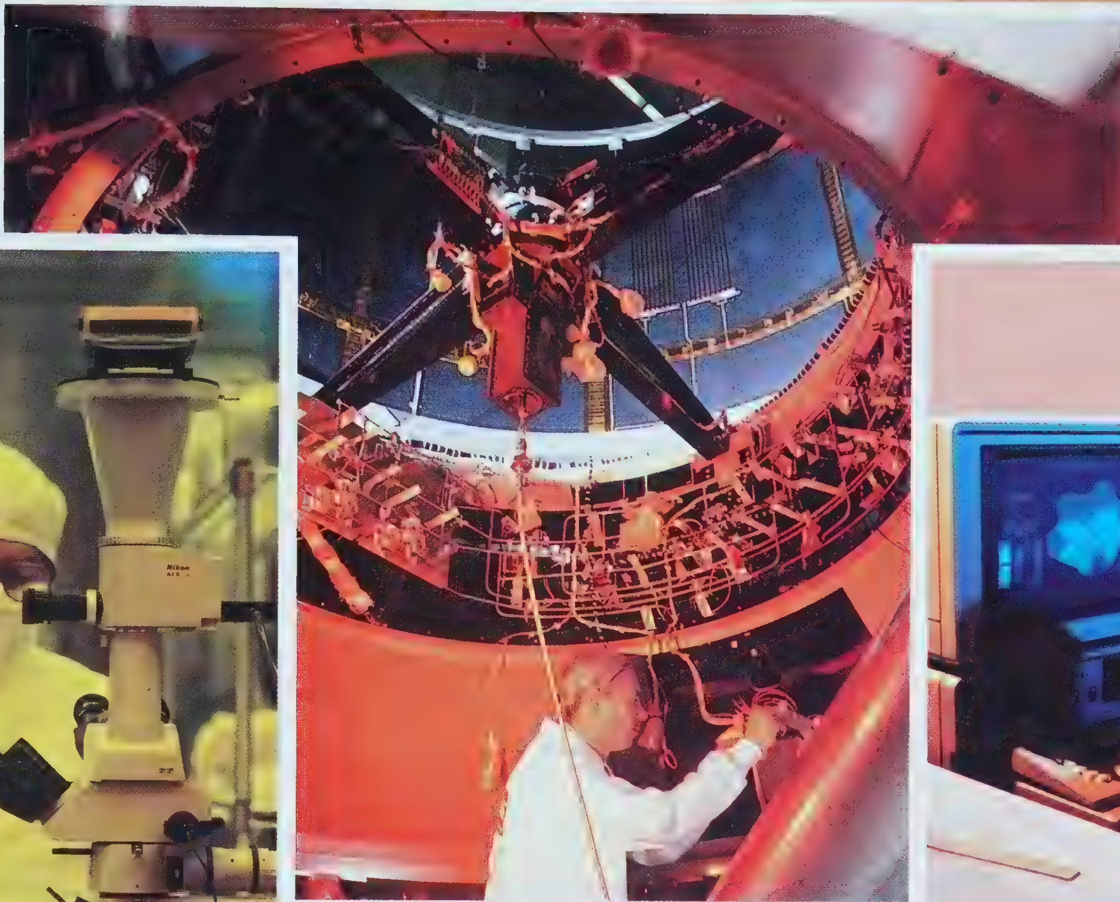
expertise and impetus for the transfer of new technology throughout GM.

GM is already reaping the benefits of the advanced technology and operating systems which have earned EDS its reputation as the most technically advanced computer services company in the world. Currently, EDS is integrating all of GM's computer, manufacturing, and telecommunications systems. GM-EDS programs are already paying off in better products and service for GM customers and more efficient engineering, manufacturing, and business procedures, enabling GM to reduce costs and meet tough global competition.

EDS is helping to bring technological innovations developed by GM Research Laboratories and the Advanced Engineering Staff into the operating divisions of GM. Examples include GMFORM, a computerized process for designing and testing die designs for metal stamping operations, and a computer system utilizing solid modeling for designing and testing mechanical components and parts.

A global telecommunications network also is in operation, using satellites with voice, data, and television transmission capabilities—with teleconferencing on the way. GM's 31 training centers and facilities in every major plant city across the United States and Canada are now interconnected.

Hughes is another vital acquisition—a recognized world leader in advanced electronics, systems engineering, and high-speed computer software. These capabilities are what GM needs to create the factories and cars of the future. Hughes' leadership position in microelectronics, advanced materials, lasers, electro-optical devices, commercial communications satellites, military command, control and communications systems, and artificial intelligence will aid in the development of new products and services. Examples include an international private satellite communications network, multiplexing systems to reduce vehicle wiring and interconnects, and automotive night-vision systems. By teaming Hughes and Delco Electronics Corporation, GM is well on the way to developing the electronic car and the integrated design and manufacturing systems of the future.



Hughes Aircraft and Delco Electronics expertise, combined with EDS information processing skills, will aid GM in developing advanced vehicle and manufacturing systems. Hughes communications satellites (above) will help link GM facilities worldwide.

A major business publication pointed out that by the year 2000 the electronics industry, already a $300-billion-a-year business, should more than triple in sales. Hughes and Delco Electronics are both world leaders: Hughes in defense and space electronics, and Delco Electronics in automotive electronics. Together, they provide GM with outstanding brainpower and experience that will impact future technological leadership for GM and the nation.

Combining Forces to Make the System Work

The formation of a major new business unit for GM's high-technology defense and electronics activities was a logical step toward achieving worldwide technological leadership. The new unit includes EDS, Hughes Aircraft Company, Delco Electronics Corporation, and GM's defense operations. It will promote even greater synergy among these operations and will enhance the development and implementation of advanced technology systems for GM products and plants worldwide, and for national defense in the United States.

The monumental change GM is undergoing in the technological arena is not a task which can be accomplished overnight. But we believe the strategic building blocks are in place to fulfill the Corporation's long-term goal of becoming the most technologically advanced and efficient industrial company in the world.

The Human Partnership

Workers increase their knowledge of GM plant operations and products through UAW-GM training programs (above).

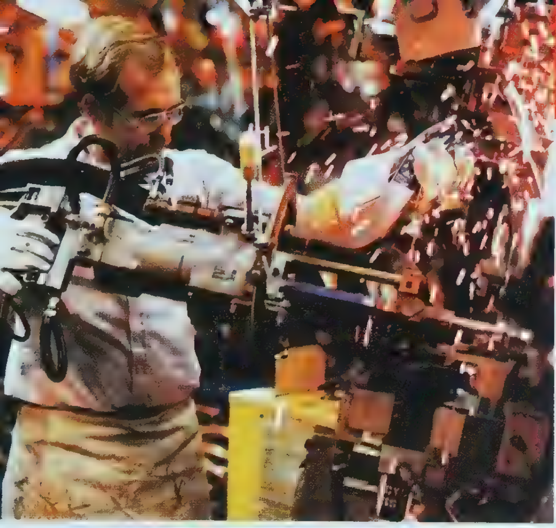
In the final analysis, it's the people. That's not a slogan. It *is* the people, all the people of the General Motors team whose skills ultimately produce the products and provide the services of the Corporation. The quest for people excellence directs the quest for product and process excellence.

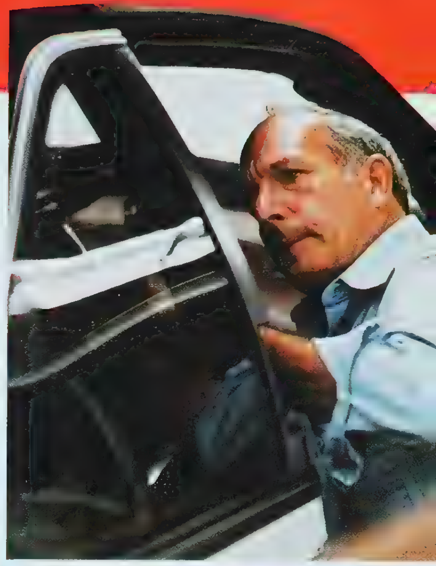
The continued industrial vigor of the nation—and by implication, the enduring success of any corporation—depends not so much on new technologies or innovative organization as on forging a new kind of human partnership.

Increasingly, for example, GM is using team concepts as part of the program called Quality of Work Life. Teams encourage employes' involvement at all levels and broaden their contribution to the success of the organization.

A Symbol and a Vision

In this same spirit, a new facility in Auburn Hills, Michigan, symbolizing a common commitment of the United Auto Workers and General Motors, was dedicated September 23, 1986. The UAW-GM Human Resource Center is national headquarters for joint skills development and training. Its programs underscore the interdependence of progress in human relations and progress in technology.






Dedicated people working together toward a common goal of continued world leadership is the strength of General Motors.

The work of the Center will strengthen UAW-GM joint relationships. Programs are carried out by training personnel at seven UAW-GM regional centers and 147 GM locations in the United States. Through the establishment of these centers, the UAW and GM have developed what may comprise the world's largest privately funded education system with a "student body" of more than 400,000 men and women.

A new training and development system for salaried employes is directed to the same end of infusing a team spirit and instilling a learning culture throughout General Motors. Local units are charged with implementing a vision for change to foster an environment of individual and team development. Plants, divisions, groups, and staffs are identifying their training needs and establishing training priorities as part of their strategic business plans.

This dramatic new emphasis on training for both hourly and salaried employes reflects the changing job requirements of a company reorienting its goals and objectives to meet changing market demands.

Streamlining for Efficiency

In the next three years, GM's streamlining of physical and human resources will involve the already announced closing of operations at 16 plants in the United States. GM's worldwide salaried employment will be reduced from its mid-1986 level by 25,000 employes in 1987 and an additional 15,000 employes by the end of 1988. Eighteen new or totally refurbished facilities that will give us added flexibility and efficiency in our manufacturing operations also will contribute significantly to our cost-competitiveness.

But people are more important than machines. GM is dedicated to meeting its responsibilities to its employes and the communities of which they are a part. GM is committed to working with both its hourly and salaried employes, union officials, and community and government leaders to reduce the impact of these necessary closings.

An engineer at Hughes Missile Systems Group monitors integrated circuit testing.

OLDSMOBILE CUTLASS CIERA SL

GM has one of the most comprehensive programs in American industry to help employes affected by plant closings. Announcements of plant closings are made well in advance, and every effort is made to transfer affected employes, retire them, or retrain them. A retraining opportunity GM pioneered in the 1984 national agreement with the UAW is the JOBS program. Eligible employes who would have been laid off instead go into the JOBS bank to receive other assignments, training, and placement help. Laid-off hourly employes with a year or more seniority receive Supplemental Unemployment Benefits. And if these run out before reemployment, employes with ten or more years seniority are covered by Guaranteed Income Stream benefits that can continue until retirement.

The modernization process does mean some plants will close. But if GM had not made these hard business decisions, the job security of a far greater number of employes would be jeopardized.

GM's overseas operations have produced strong-selling vehicles like the Opel Omega, which won European Car of the Year honors for 1987, and the Bedford minivan.

A production team at GM's Opel plant in Russelsheim, Federal Republic of Germany, discusses the quality of axle production (right).

Job Security Is Common Goal

Job security will be a key issue and a common goal in the 1987 labor contract negotiations with the unions representing GM employes.

Real job security depends on how well GM becomes fully world-competitive in product, quality, and costs. This requires able, innovative people committed to keeping General Motors number one. In so doing, they ensure their own job security.

Our most critical requirement for long-term business success, therefore, is to secure and retain highly capable people at every level of the business—hourly, salaried, and executive employes.

Fair and Competitive Compensation

While GM's new partnership concept recognizes that the members of the organization are mutually supportive, it also recognizes different talents and levels of responsibility. Accordingly, GM's compensation systems recognize these differences. There are two fundamental questions: Are employes at all levels being fairly paid for their contributions? Is General Motors competitive from a total compensation standpoint in being able to attract and retain the highest-quality employes at all levels?

GM's total compensation package—including wages and benefits for hourly, salaried, and executive employes—is among the best in the world. GM payrolls totaled \$28.1 billion worldwide in 1986. Average hourly and salaried compensation both increased. When benefits are included, GM's average total compensation cost per U.S. hourly employe amounted to approximately \$50,000, while the average cost for salaried employes was about \$54,000. At the same time, GM's executive group saw their direct compensation (salary and bonus)—which is heavily

As part of a thorough engineering evaluation, GM technicians check the quality of the trim on a door frame.

GMC SIERRA Pickup

risk-oriented and significantly dependent on bonuses—go down substantially this year.

Hourly employes shared more than $125 million in attendance-bonus awards and $305 million in performance-bonus payments in 1986. Both special payments were negotiated in the 1984 UAW-GM National Agreement.

Based solely on U.S. earnings and increased investment levels, GM's 1986 earnings were not sufficient to generate a payout under the profit sharing formula for hourly and salaried employes in the United States. Profit sharing has, however, represented only one to two percent of an eligible hourly or salaried employe's pay since the plans became effective in 1983.

The awarding of executive bonuses is determined by the Incentive and Compensation Committee, comprised entirely of non-employe members of the Board of Directors. Based on a stockholder-approved formula, GM's Bonus Plan generated a fund of $169.1 million on worldwide profits of $2.9 billion. The Incentive and Compensation Committee determined that the amount awarded for 1986 would be the amount available under the incentive compensation formula. The $169.1 million awarded to GM's managers will be paid in equal annual instalments over a three-year period, generally in equal portions of cash and GM common stocks.

Commitment and Performance

Again, General Motors is its people. GM's success depends on their involvement and their individual and team commitment and performance. And GM is determined that each employe throughout the organization will have the opportunity, the environment, and the incentives to promote maximum participation in meeting the Corporation's collective goals. That's a partnership for success for all.

Stockholders Elect Two New Directors; Vice Chairman Retires

GM stockholders elected two new members of the Board of Directors in 1986. James D. Robinson, III, chairman of the board of American Express Company, and Dennis Weatherstone, president of J. P. Morgan & Co. Incorporated, were elected at the Annual Meeting on May 23, 1986.

Pursuant to the Board's Director Retirement Policy, Robert S. Hatfield, Raymond H. Herzog, W. Earle McLaughlin, and Dr. Charles H. Townes did not stand for reelection. Each had served with distinction.

Vice Chairman Howard H. Kehrl retired January 1, 1987, ending a distinguished 39-year career with General Motors. He had been vice chairman since 1981 with responsibility for the Technical Staffs Group, Operating Staffs Group, and Public Affairs Staffs Group.

Ross Perot resigned from the Board of Directors on December 1, 1986.

John D. deButts, a dedicated Director who had retired in 1985, died December 17, 1986.

* * *

The following changes at the vice president and group executive level have occurred since the 1985 Annual Report: Robert T. O'Connell, named to head the Finance Group (succeeding John R. Edman, elected chairman of General Motors Acceptance Corporation and Motors Insurance Corporation); W. Blair Thompson, to head the newly formed Automotive Components Groups, consisting of the Chassis and Transmission Components Group headed by John D. Debbink and the Body and Engine Components Group headed by E. Michael Mutchler; and Robert J. Eaton, appointed group executive in charge of the Technical Staffs Group.

GENERAL MOTORS EMPLOYMENT, PAYROLLS, AND BENEFITS

	1986	1985	1984
Average worldwide employment			
GM (excluding units listed below)	734,000	762,000	731,000
GMAC and its subsidiaries	16,000	14,000	14,000
EDS (effective 10/18/84)	45,000	35,000	15,000
Hughes Aircraft Company (effective 12/31/85)	81,000	—	—
Average number of employes	876,000	811,000	748,000†
Worldwide payrolls	$28.1 billion	$25.6 billion	$22.5 billion
Average U.S. hourly employment*	379,000	397,000	374,000
U.S. hourly payrolls*	$14.1 billion	$15.3 billion	$13.6 billion
Average labor cost per hour worked-U.S. hourly*	$24.00	$23.40	$22.60
North American employment at December 31 (excluding GMAC, EDS, Hughes and their subsidiaries)			
Salaried	122,200	127,100	130,300
Hourly	417,300	441,800	429,200
Total	539,500	568,900	559,500
Payments for benefit plans-U.S.			
Pensions	$1.5 billion	$2.4 billion	$2.3 billion
Health-care	2.2 billion	2.1 billion	2.3 billion
Other	1.2 billion	1.2 billion	1.0 billion
Total	$4.9 billion	$5.7 billion	$5.6 billion
Incentive program: credit	$169.1 million	$260.7 million	$269.2 million
awards	$169.1 million	$218.6 million	$224.1 million
Equal employment opportunity:			
Minorities as % of GM U.S. work force	21%	21%	20%
White-collar	13%	13%	13%
Blue-collar	23%	23%	22%
Women as % of GM U.S. work force	20%	20%	19%
White-collar	25%	25%	24%
Blue-collar	18%	18%	18%

*Excludes Hughes and EDS.
†Includes only 3,000 employes for EDS, which represents the annualized average for the portion of the year which followed its acquisition by GM in October 1984.

Financial Review

Results of Operations

General Motors' net income in 1986 of $2,944.7 million, or $8.21 per share of $1-2/3 par value common stock, included the unfavorable effect of a special provision for scheduled plant closings and other restructurings of $1,287.6 million, or $2.20 per share of $1-2/3 par value common stock. The special provision was partially offset by related specific tax benefits from restructuring certain foreign operations resulting in a net reduction in earnings of $291.3 million, or $0.92 per share of $1-2/3 par value common stock.

Net income was 26.4% lower than in 1985. This decline occurred in spite of a worldwide dollar sales and revenues growth of 6.7% over 1985 to a record $102.8 billion in 1986. These sales and revenues included Hughes Aircraft Company (Hughes) sales of $6,891.0 million for the first time. Net income in 1985 of $3,999.0 million was $517.5 million lower than in 1984, due primarily to a one-time tax credit of $421.3 million in 1984 relating to the domestic international sales corporation (DISC).

As detailed in the table on page 9, worldwide factory sales of vehicles to GM dealers during 1986 totaled 8,576,000 units—down 7.8% from the prior year. This decline can be attributed to lower sales of 9.3% in the U.S., 12.5% in Canada and 1.3% overseas. The U.S. vehicle decline includes decreases of 580,000 units in passenger car sales, while truck and bus sales decreased 17,000 units. Worldwide factory sales in 1985 of 9,305,000 units were 12.7% above 1984 unit sales.

Dollar sales and revenues include price adjustments of $4.1 billion in 1986, in comparison to $3.2 billion in 1985 and $2.9 billion in 1984. Revenues from computer systems services to sources outside GM and its consolidated affiliates continued their growth of approximately 20% per year to $1,306.8 million in 1986.

Cost of sales and other operating charges in 1986 as a percent of sales and revenues was 85.9%, an increase of 1.2 points over the prior year. While the operating units achieved significant performance savings, the effect of these efforts was offset by the effect of the retail interest rate incentive programs implemented during the year. Cost of sales in 1985 amounted to 84.7% of sales and revenues, one percentage point more than in 1984. Selling, general and administrative expenses likewise increased 0.6 points over 1985 to 5.1% of sales and revenues. Such expenses in 1985 had decreased 0.3 points to 4.5% of sales and revenues.

In 1986, the Corporation announced plans to close certain manufacturing and assembly plants over the next three years and to restructure certain other operations. The 1986 results of operations include a special provision of $1,287.6 million for costs associated with these scheduled plant closings and other restructurings that can be reasonably estimated at the present time. This provision includes $802.9 million for scheduled plant closings in the U.S. and $484.7 million for various other restructurings of foreign operations. The 1986 net income by geographic segment, as shown in Note 16 to the Financial Statements, reflects the effect of the restructurings and the termination in 1986 of the heavy-duty truck portion of GM's European commercial vehicle operations, which more than accounted for the $343.3 million loss in Europe.

Other income less income deductions decreased by $316.1 million from 1985 primarily as the result of lower interest income on a reduced investment portfolio resulting from the acquisition of Hughes in late 1985.

Total taxes of GM, including payroll and property taxes but excluding the taxes of GM's financing and insurance operations, General Motors Acceptance Corporation (GMAC), totaled $2,926.6 million in 1986 compared with $4,815.9 million in 1985 and $5,377.5 million in 1984. The net credit for U.S., foreign and other income taxes in 1986 reflects a credit of $646.7 million in U.S. taxes, compared with a provision of $1,271.0 million in 1985, and includes the favorable impact of U.S. investment, foreign and other tax credits totaling $600.4 million.

Equity in earnings of nonconsolidated subsidiaries and associates, principally GMAC and its subsidiaries, increased $176.1 million to $1,184.1 million in 1986 compared with a $190.7 million increase in 1985. Record 1986 GMAC earnings growth can be primarily attributed to the growth in earning assets and lower borrowing costs, only partially offset by lower earning rates on the assets. The 1985 GMAC earnings increase resulted from the increased level of earning assets

*The comments and data covering Streamlining for Efficiency (pages 17-18), General Motors Employment, Payrolls, and Benefits (page 21), GM Hughes Electronics operations (page 25) and Electronic Data Systems operations (page 26) also should be read as an integral part of this discussion and analysis.

and a decline in money costs in the U.S. and Canada.

General Motors' profit margin (net income as a percent of sales and revenues) decreased to 2.9% from 4.1% in 1985 and 5.4% in 1984.

Earnings per share attributable to $1-2/3 par value common stock in 1986 of $8.21 includes the favorable (unfavorable) effects of scheduled plant closings and other restructurings of ($0.92) per share, revisions to pension plan actuarial assumptions of $0.61 per share, adoption of Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, of $0.96 per share, and foreign exchange/translation activity of ($0.04) per share. Earnings per share attributable to $1-2/3 par value common stock in 1985 amounted to $12.28, including $0.25 per share from favorable foreign exchange/translation activity, versus $14.27 per share in 1984. The $1.99 per share decline in earnings in 1985 was primarily attributable to the one-time tax credit in 1984 related to the DISC of $1.34 per share, increased costs not fully recovered through prices and costs associated with program systems being implemented by Electronic Data Systems Corporation (EDS).

Earnings per share attributable to Class E common stock amounted to $2.13 in 1986 compared with $1.57 in 1985 and $0.16 in 1984. These earnings are based on the Available Separate Consolidated Net Income of EDS (discussed on page 26) as defined in Note 10 to the Financial Statements.

Earnings per share attributable to Class H common stock of $2.97 in 1986 are based on the Available Separate Consolidated Net Income of GM Hughes Electronics Corporation (GMHE) (discussed on page 25) as defined in Note 10 to the Financial Statements and include the effect of adoption of SFAS No. 87 of $0.34 per share. Because the acquisition of Hughes was made effective December 31, 1985, the Statement of Consolidated Income includes the operations of Hughes beginning January 1, 1986.

Liquidity and Capital Resources

Cash and marketable securities at December 31, 1986 amounted to $4,018.8 million, a decrease of $1,095.6 million from the prior year-end. This decrease primarily reflects the excess of expenditures for real estate, plants, equipment and special tools over the funds provided by current operations, the decrease in inventories, the increase in accrued liabilities and deferred income taxes, and the net increase in long-term debt. The increase in other accounts and notes receivable reflects GM's assumption of part of the dealer financing previously provided by GMAC, financed in part by the increase in the payable to GMAC.

Of the 1986 worldwide expenditures of $8.1 billion for real estate, plants and equipment, approximately 82% were made in the United States (84% in 1985 and 82% in 1984), 8% in Canada (5% in 1985 and 4% in 1984), and 10% overseas (11% in 1985 and 14% in 1984).

Worldwide expenditures for special tools totaled $3,625.3 million in the 1986 period, an increase of $550.3 million over the amount spent in 1985, bringing total worldwide capital expenditures for 1986 to $11.7 billion.

In 1985, cash and marketable securities decreased by $3,453.0 million, principally reflecting expenditures for property and for the acquisition of Hughes, only partially offset by funds provided by current operations and issuances of common stocks.

Commitments for capital spending, including special tools, at December 31, 1986 totaled $5.6 billion, and it is anticipated that total capital expenditures, including the annual requirements of EDS and GMHE, will be approximately $9 billion in 1987, to be financed primarily from funds provided by current operations.

GM's liquidity can be measured by its current ratio (ratio of current assets to current liabilities). For the years ended December 31, 1986, 1985 and 1984, the current ratio, based on last-in, first-out (LIFO) inventories, was 1.17, 1.09 and 1.36, respectively.

The long-term debt of General Motors and its consolidated subsidiaries showed a net increase of $1,507.1 million during 1986, including an increase of $1,782.8 million in debt of the Corporation, partially offset by a decrease of $275.7 million in debt of consolidated subsidiaries. The Corporation issued $1.2 billion

of notes and debentures in the United States in 1986 and approximately $502 million of notes and bonds were placed overseas by the Corporation. During 1985, long-term debt increased $82.8 million, reflecting an increase of $185.3 million in debt of consolidated subsidiaries (including long-term debt of Hughes acquired effective December 31, 1985), only partially offset by a decline of $102.5 million in debt of the Corporation.

The ratio of long-term debt to the total of long-term debt and stockholders' equity increased from 7.8% at December 31, 1985 to 11.6% at December 31, 1986. The ratio of such long-term debt and short-term loans payable to the total of this debt and stockholders' equity amounted to 18.0% at December 31, 1986 compared with 14.9% at December 31, 1985.

The senior long-term debt of GM and GMAC continued to be rated Aa1 by Moody's but was adjusted downward in November 1986 to AA from AA+ by Standard & Poor's, while the commercial paper of GMAC still has the highest possible rating. In line with the past practice of maintaining lines of credit, at year-end 1986 the Corporation and its subsidiaries (excluding GMAC) had unused short-term credit lines of approximately $3.0 billion and unused long-term credit agreements of approximately $1.8 billion.

For marketing and financial reasons, GM assumed part of the dealer inventory financing previously provided by GMAC. Accordingly, on September 30, 1986, General Motors entered into a five-year financing agreement with GMAC which provides that GMAC will extend loans to GM up to a maximum of $12 billion which will bear interest at floating market rates. This financing agreement ensures that GMAC's ongoing funding activities continue and returns to GMAC the approximate amount of interest it would have earned had it retained the dealer inventory financing business. At December 31, 1986, $5,200 million was outstanding under this agreement at a rate of 7.4%.

The decrease in preferred stocks in 1986, 1985 and 1984 reflects the Corporation's previously announced long-term program to reacquire such stock when it is considered economically attractive to GM. The difference between repurchase prices and the stated value of $100 per share has been credited to capital surplus.

Increases in $1-2/3 par value common stock in 1986, 1985 and 1984 reflect the use of newly issued stock for purposes of the GM Incentive Program and the General Motors Dividend Reinvestment Plan, partially offset in 1986 by reacquisitions under which the shares were cancelled.

The decrease in Class E common stock in 1986 reflects primarily the reacquisition of such stock on the open market for employe benefit plans and from certain employes and former stockholders of EDS as discussed in Note 15 to the Financial Statements. The issuance of Class E common stock in 1985 reflected primarily a two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985, a public offering in February 1985 and EDS Stock Incentive Plan grants. The 1984 increase reflected primarily the acquisition of EDS, as described more fully in Note 1 to the Financial Statements, and the dividend of one share of Class E common stock for every 20 shares of $1-2/3 par value common stock, distributed on December 10, 1984.

The Class H common stock issued in 1985 reflects the acquisition of Hughes, as described more fully in Note 1 to the Financial Statements, and the dividend of one share of Class H common stock for every 20 shares of $1-2/3 par value common stock, distributed on December 30, 1985.

It is the Corporation's policy with respect to $1-2/3 par value common stock to distribute dividends based on the outlook and the indicated capital needs of the business. The Corporation's current policy with respect to Class E common and Class H common stocks is to pay cash dividends approximately equal to 25% of the Available Separate Consolidated Net Income of EDS and GMHE, respectively, for the prior year.

Book value per share of $1-2/3 par value common stock increased in 1986 to $83.09 from $79.13 at the end of 1985 and $72.16 at the end of 1984. Book value per share of Class E common stock was $21.28 at the end of 1986, $20.34 at the end of 1985 and $18.04 at the end of 1984. Book value per share of Class H common stock was $41.58 at the end of 1986 and $39.76 at the end of 1985.

Net income as a percent of stockholders' equity was 9.6% in 1986, compared with 13.5% in 1985 and 18.7% in 1984.

The Tax Reform Act of 1986 will not have a material impact on liquidity and capital resources; consolidated net income will be impacted to the extent that the repeal of investment tax credits is not offset by the benefit of the overall reduction of income tax rates.

GM HUGHES ELECTRONICS OPERATIONS

GM Hughes Electronics Corporation (GMHE), a leader in advanced electronics, posted increased sales and earnings in 1986—its first year of full-fledged operation—compared with 1985 pro forma amounts. During the year, GMHE's Hughes Aircraft Company (Hughes) subsidiary maintained its position as the nation's number one supplier of electronic components and systems for the nation's defense and communications satellites. The Delco Electronics Corporation (Delco Electronics) subsidiary continued as the world's leading supplier of automotive electronics.

Working together in 1986, Hughes and Delco Electronics combined their knowledge and technologies with other GM organizations in more than twenty development programs for potential new products, services, and businesses. These new ventures are aimed at expanding GMHE's future revenues and earnings. Examples include: an international private satellite communications network for GM and other users, which is being developed with Electronic Data Systems; a vehicle identification and location system, using special compact radios and satellite communication; a vehicle antenna combining AM-FM radio reception with cellular telephone and satellite transceiver capabilities; multiplexing systems to reduce vehicle wiring and interconnects; an automotive night vision system; an automotive head-up display for projecting instrument panel information into the driver's forward field of view; an automotive collision avoidance system; and application of large-scale real-time software engineering capabilities to GM's computer-integrated manufacturing systems.

Based on 1986 revenues of $10.4 billion, GMHE would rank among the top 40 U.S. industrial companies. These revenues are almost 10% higher than 1985 pro forma revenues of $9.5 billion. GMHE's 1986 earnings of $593.9 million were up 22% from the 1985 pro forma earnings of $488.6 million. Revenue and earnings gains were recorded in most of Hughes and Delco Electronics activities, reflecting continued strength in the defense electronics industry, further increases in electronic content in motor vehicles and ongoing efforts to reduce costs.

As of January 1, 1986, GMHE adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Application of this Statement had the effect of increasing 1986 earnings by $68.4 million or $0.34 per share of Class H common stock.

For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of intangible assets arising from the acquisition of Hughes is charged against earnings attributable to $1-2/3 par value common stock. The effect on the 1986 earnings attributable to $1-2/3 par value common stock was a net charge of $95.0 million, consisting of the amortization of the intangible assets arising from the acquisition, the profit on intercompany transactions and the earnings of GMHE attributable to $1-2/3 par value common stock.

A Hughes technician inspects mirrors used in the M-1 Abrams tank thermal imaging system that enables gunners to see through darkness, smoke, or haze.

Summary Financial Data

(Dollars in Millions Except Per Share Amounts)	Year Ended December 31, 1986	Pro Forma Year Ended December 31, 1985	Pro Forma Year Ended December 31, 1984
Revenues:			
Net sales:			
GM and affiliates	$ 3,158.7	$3,054.2	$2,475.3
Other customers	7,212.8	6,414.9	6,009.8
Other income-net	68.5	34.7	63.9
Total Revenues	10,440.0	9,503.8	8,549.0
Costs and Expenses	9,628.8	8,962.0	7,978.0
Income Taxes	366.1	202.0	202.0
Separate Consolidated Net Income	445.1	339.8	369.0
Available Separate Consolidated Net Income:			
Adjustments to exclude the effect of purchase accounting*	148.8	148.8	148.8
Earnings of GMHE, Excluding Purchase Accounting Adjustments	$ 593.9	$ 488.6	$ 517.8
Available Separate Consolidated Net Income**	$ 190.0	$ 160.0	$ 169.6
Average number of shares of Class H common stock outstanding (in millions)	63.9	65.5	65.5
Earnings Attributable to Class H Common Stock on a Per Share Basis	$2.97	$2.44	$2.59
Cash dividends per share of Class H common stock	$0.60		

*Amortization of intangible assets arising from the acquisition of Hughes.

**Earnings of GMHE, excluding purchase accounting adjustments, multiplied by a fraction, the numerator of which is the weighted average number of shares of Class H common stock outstanding and the denominator of which is currently 200 million shares. Available Separate Consolidated Net Income is determined quarterly.

On October 18, 1984, General Motors acquired Electronic Data Systems Corporation (EDS), a leader in the computer services industry. After the acquisition, EDS quickly began developing solutions to GM's data processing needs, and over the past year EDS continued to make great strides in automating GM's factories and offices.

In one of its largest projects for GM, EDS is in the second year of a five-year effort to rewrite, update and integrate all data-processing systems used by General Motors Acceptance Corporation. As part of this project, EDS is implementing a distributed computer network that will link more than 11,000 GMAC terminals across the country. It will be the largest such network in the financial services industry.

EDS has consolidated the operations of more than 50 GM computing facilities and major data-processing systems, creating a powerful, efficient network of 14 larger information processing centers. In addition, previously incompatible communications networks are being united in a single global network with all-digital capabilities.

Meanwhile, at GM plants worldwide, automation now plays a greater role in daily operations than ever before. For instance, EDS and GM efforts on a new full-size pickup truck development program have culminated in a revolutionary approach to plant-floor information networks. EDS, working with Hughes, has also developed specialized simulation studies that allow GM engineers to evaluate manufacturing and assembly processes before they are installed, saving millions of dollars.

This is a fraction of the work that EDS is undertaking at General Motors. In addition, during 1986 EDS aggressively pursued new business in a number of nonautomotive markets, while continuing to provide existing customers with the unmatched level of service that has been the Dallas-based company's hallmark for almost 25 years.

This year, for example, EDS continued to expand its already extensive business with the Federal government, signing major contracts with the U.S. Air Force and the Office of the Secretary of Defense. EDS also began developing a large banking system for BANC ONE CORPORATION of Columbus, Ohio.

Separately, a new EDS business-development group is now actively marketing the extensive expertise gained working with General Motors. The systems pioneered at GM have potential applications in many different manufacturing settings, and EDS' work on the GM employe benefits system has broad potential among large companies.

Another new group is working to further expand EDS business with multinational customers around the globe. In addition, EDS is emerging as a leading integrator of large, complex telecommunications networks.

The financial statements of EDS do not include the cost to GM, $2,179.5 million, of EDS customer contracts, computer software programs, and other intangible assets arising from the acquisition of EDS by GM. This cost plus the cost of contingent notes purchased in December 1986, $343.2 million, less certain income tax benefits, is being amortized by GM over the estimated useful lives of the assets acquired. Amortization for 1986 was $362.4 million and for 1985 was $346.3 million. For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of these assets is charged against earnings attributable to $1-2/3 par value common stock. The effect on the 1986, 1985 and 1984 earnings attributable to $1-2/3 par value common stock was a net charge of $260.2 million, $241.0 million and $31.7 million, respectively, consisting of the amortization of the intangible and other assets arising from the acquisition less related income tax effects, the profit on intercompany transactions and the earnings of EDS attributable to $1-2/3 par value common stock.

In 1985, EDS changed its method of accounting for investment tax credits from the flow-through method to the deferral method used by the Corporation. The effect of the change was to reduce 1985 earnings attributable to Class E common stock by $0.41 per share and defer the recognition of investment tax credits to earnings attributable to Class E common stock in future years. In 1986, EDS adopted SFAS No. 87, Employers' Accounting for Pensions. The effect was not material.

Summary Financial Data

(Dollars in Millions Except Per Share Amounts)	Year Ended December 31, 1986	Year Ended December 31, 1985	Oct. 18 to December 31, 1984	Pro Forma Year Ended December 31, 1984
Revenues:				
Systems and other contracts:				
GM and affiliates	$3,195.1	$2,428.1	$ 36.4	$ 59.3
Other customers	1,125.9	978.3	184.5	866.6
Interest and other income	58.4	38.3	4.8	21.5
Total Revenues	4,379.4	3,444.7	225.7	947.4
Costs and Expenses	3,916.3	3,082.2	191.1	808.1
Income Taxes	202.2	172.7	15.9	58.6
Separate Consolidated Net Income	$ 260.9	$ 189.8	$ 18.7	$ 80.7
Available Separate Consolidated Net Income*	$ 136.2	$ 103.8	$ 5.7	
Average number of shares of Class E common stock outstanding (in millions)	63.8	66.5	36.3**	
Earnings Attributable to Class E Common Stock on a Per Share Basis	$2.13	$1.57	$0.16**	
Cash dividends per share of Class E common stock	$0.40	$0.195	$0.045**	

*Separate consolidated net income of EDS multiplied by a fraction, the numerator of which is the weighted average number of shares of Class E common stock outstanding and the denominator of which is currently 121.9 million shares. Available Separate Consolidated Net Income is determined quarterly.

**Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

Earnings and earnings per share attributable to Class E common stock in 1985 and 1984 have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985.

General Motors Corporation and Consolidated Subsidiaries

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The following financial statements of General Motors Corporation and consolidated subsidiaries were prepared by the management which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments of management. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

Management is further responsible for maintaining a system of internal accounting controls, designed to provide reasonable assurance that the books and records reflect the transactions of the companies and that its established policies and procedures are carefully followed. From a stockholder's point of view, perhaps the most important feature in the system of control is that it is continually reviewed for its effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel, and a strong program of internal audit.

Deloitte Haskins & Sells, independent certified public accountants, are engaged to examine the consolidated financial statements of General Motors Corporation and its subsidiaries and issue reports thereon. Their examination is conducted in accordance with generally accepted auditing standards which comprehend a review of internal accounting controls and a test of transactions. The Accountants' Report appears on page 41.

The Board of Directors, through the Audit Committee and its Common Stock Classification Oversight Subcommittee (both composed entirely of non-employe Directors), is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements. The Committee selects the independent public accountants annually in advance of the Annual Meeting of Stockholders and submits the selection for ratification at the Meeting. In addition, the Committee reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent public accountants, representatives of management, and the internal auditors meet regularly (separately and jointly) with the Committee to review the activities of each and to ensure that each is properly discharging its responsibilities. To ensure complete independence, Deloitte Haskins & Sells have full and free access to meet with the Committee, without management representatives present, to discuss the results of their examination, the adequacy of internal accounting controls, and the quality of the financial reporting.

Roger B. Smith — Chairman

F. Alan Smith — Chief Financial Officer

STATEMENT OF CONSOLIDATED INCOME

For the Years Ended December 31, 1986, 1985 and 1984 (Dollars in Millions Except Per Share Amounts)	1986	1985	1984
Net Sales and Revenues (Notes 1 and 2)			
Manufactured products	$101,506.9	$95,268.4	$83,699.7
Computer systems services	1,306.8	1,103.3	190.2
Total Net Sales and Revenues	102,813.7	96,371.7	83,889.9
Cost and Expenses			
Cost of sales and other operating charges, exclusive of items listed below	88,298.0	81,654.6	70,217.9
Selling, general and administrative expenses	5,203.5	4,294.2	4,003.0
Depreciation of real estate, plants and equipment	3,499.6	2,777.9	2,663.2
Amortization of special tools	2,596.1	3,083.3	2,236.7
Amortization of intangible assets (Note 1)	498.0	347.3	69.1
Special provision for scheduled plant closings and other restructurings (Note 6)	1,287.6	—	—
Total Costs and Expenses	101,382.8	92,157.3	79,189.9
Operating Income	1,430.9	4,214.4	4,700.0
Other income less income deductions—net (Note 7)	983.1	1,299.2	1,713.5
Interest expense (Note 1)	(953.7)	(892.3)	(909.2)
Income before Income Taxes	1,460.3	4,621.3	5,504.3
United States, foreign and other income taxes (credit) (Note 9)	(300.3)	1,630.3	1,805.1
Income after Income Taxes	1,760.6	2,991.0	3,699.2
Equity in earnings of nonconsolidated subsidiaries and associates (dividends received amounted to $1.7 in 1986, $100.5 in 1985 and $706.1 in 1984)	1,184.1	1,008.0	817.3
Net Income	2,944.7	3,999.0	4,516.5
Dividends on preferred stocks	10.8	11.6	12.5
Earnings on Common Stocks	$ 2,933.9	$ 3,987.4	$ 4,504.0
Earnings attributable to:			
$1-2/3 par value common stock	$ 2,607.7	$ 3,883.6	$ 4,498.3
Class E common stock (issued in 1984)	$ 136.2	$ 103.8	$ 5.7
Class H common stock (issued in December 1985)	$ 190.0	—	—
Average number of shares of common stocks outstanding (in millions):			
$1-2/3 par value common	317.6	316.3	315.3
Class E common (issued in 1984)	63.8	66.5	36.3*
Class H common (issued in December 1985)	63.9	—	—
Earnings Per Share Attributable to (Note 10):			
$1-2/3 par value common stock	$8.21	$12.28	$14.27
Class E common stock (issued in 1984)	$2.13	$1.57	$0.16*
Class H common stock (issued in December 1985)	$2.97	—	—

Reference should be made to notes on pages 30 through 41. Certain amounts for 1984 have been reclassified to conform with 1985 classifications.

Earnings and earnings per share attributable to common stocks in 1985 and 1984 have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985.

*Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

CONSOLIDATED BALANCE SHEET

December 31, 1986 and 1985 (Dollars in Millions Except Per Share Amounts)

ASSETS	1986	1985
Current Assets		
Cash	$ 150.7	$ 179.1
United States Government and other marketable securities and time deposits—at cost, which approximates market of $3,881.0 and $4,933.1	3,868.1	4,935.3
Total cash and marketable securities	4,018.8	5,114.4
Accounts and notes receivable (Note 11):		
Nonconsolidated subsidiaries and associates (including GMAC and its subsidiaries—$1,387.1 and $4,038.7)	1,607.0	4,126.9
Other (less allowances)	9,697.3	3,155.1
Inventories (less allowances) (Note 1)	7,235.1	8,269.7
Contracts in process (less advances and progress payments of $2,345.7 and $2,525.3) (Note 1)	1,590.6	1,453.8
Prepaid expenses	2,619.6	2,136.1
Total Current Assets	26,768.4	24,256.0
Equity in Net Assets of Nonconsolidated Subsidiaries and Associates (principally GMAC and its subsidiaries—Note 11)	7,232.3	5,718.5
Other Investments and Miscellaneous Assets—at cost (less allowances)	2,308.4	3,069.8
Common Stocks Held for the GM Incentive Program (Note 3)	190.3	190.2
Property		
Real estate, plants and equipment—at cost (Note 12)	55,240.7	47,267.1
Less accumulated depreciation (Note 12)	27,658.0	24,325.0
Net real estate, plants and equipment	27,582.7	22,942.1
Special tools—at cost (less amortization)	2,793.7	1,710.9
Total Property	30,376.4	24,653.0
Intangible Assets—at cost (less amortization) (Note 1)	5,717.2	5,945.3
Total Assets	$72,593.0	$63,832.8

LIABILITIES AND STOCKHOLDERS' EQUITY	1986	1985
Current Liabilities		
Accounts payable (principally trade)	$ 6,368.0	$ 7,322.2
Loans payable (Note 14)	2,730.1	2,655.2
United States, foreign and other income taxes payable	333.1	243.1
Accrued liabilities and deferred income taxes (Note 13)	13,416.9	12,078.0
Total Current Liabilities	22,848.1	22,298.5
Long-Term Debt (Note 14)	4,007.3	2,500.2
Payable to GMAC (Note 11)	5,500.0	300.0
Capitalized Leases (including GMAC and its subsidiaries—$35.8 and $76.1)	318.0	367.0
Other Liabilities	6,991.7	6,879.8
Deferred Credits (including investment tax credits—$1,505.3 and $1,328.8)	2,249.9	1,962.6
Stockholders' Equity (Notes 3, 4, 5 and 15)		
Preferred stocks ($5.00 series, $153.0 and $169.3; $3.75 series, $81.4)	234.4	250.7
Common stocks:		
$1-2/3 par value common (issued, 319,383,830 and 318,853,315 shares)	532.3	531.4
Class E common (issued, 53,507,119 and 66,227,137 shares)	5.4	6.6
Class H common (issued, 66,585,332 and 65,495,316 shares)	6.6	6.6
Capital surplus (principally additional paid-in capital)	6,332.6	6,667.8
Net income retained for use in the business	23,888.7	22,606.6
Subtotal	31,000.0	30,069.7
Accumulated foreign currency translation and other adjustments (Note 1)	(322.0)	(545.0)
Total Stockholders' Equity	30,678.0	29,524.7
Total Liabilities and Stockholders' Equity	$72,593.0	$63,832.8

Reference should be made to notes on pages 30 through 41. Certain amounts for 1985 have been reclassified to conform with 1986 classifications.

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

For the Years Ended December 31, 1986, 1985 and 1984 (Dollars in Millions)	1986	1985	1984
Source of Funds			
Net income	$ 2,944.7	$ 3,999.0	$ 4,516.5
Depreciation of real estate, plants and equipment	3,499.6	2,777.9	2,663.2
Amortization of special tools	2,596.1	3,083.3	2,236.7
Amortization of intangible assets (Note 1)	498.0	347.3	69.1
Deferred income taxes, undistributed earnings of nonconsolidated subsidiaries and associates, etc.—net	(562.9)	(471.7)	(1,316.1)
Total funds provided by current operations	8,975.5	9,735.8	8,169.4
Increase in long-term debt	2,885.3	965.9	1,074.1
Increase in payable to GMAC	5,200.0	—	—
Issuances of common stocks	327.6	2,883.3	614.0
Other—net	393.8	331.4	2,010.6
Total	17,782.2	13,916.4	11,868.1
Use of Funds			
Cash dividends paid to stockholders (Note 15)	1,663.1	1,616.9	1,523.7
Expenditures for real estate, plants and equipment:			
Operations	8,086.3	6,099.2	3,595.1
Hughes acquisition	—	1,948.7	—
Expenditures for special tools	3,625.3	3,075.0	2,452.1
Intangible assets arising from acquisitions (Note 1)	270.0	4,354.0	2,006.3
Increase (Decrease) in other working capital items	3,058.4	(866.2)	(1,964.6)
Decrease in long-term debt	1,378.2	883.1	1,793.9
Repurchases of common and preferred stocks, less shares reissued	679.4	127.8	11.8
Investments in nonconsolidated subsidiaries and associates	117.1	130.9	99.3
Total	18,877.8	17,369.4	9,517.6
Increase (Decrease) in cash and marketable securities	(1,095.6)	(3,453.0)	2,350.5
Cash and marketable securities at beginning of the year	5,114.4	8,567.4	6,216.9
Cash and marketable securities at end of the year	$ 4,018.8	$ 5,114.4	$ 8,567.4
Increase (Decrease) in Other Working Capital Items by Element			
Accounts and notes receivable:			
Nonconsolidated subsidiaries and associates	($ 2,519.9)	$ 159.9	$ 307.0
Other	6,542.2	(235.8)	86.7
Inventories	(1,034.6)	910.0	738.2
Contracts in process	136.8	1,453.8	—
Prepaid expenses	483.5	1,707.8	(568.9)
Accounts payable	954.2	(2,578.7)	(101.2)
Loans payable	(74.9)	430.8	(1,830.8)
United States, foreign and other income taxes payable	(90.0)	375.8	(416.6)
Accrued liabilities and deferred income taxes	(1,338.9)	(3,089.8)	(179.0)
Increase (Decrease) in other working capital items	$ 3,058.4	($ 866.2)	($ 1,964.6)

Reference should be made to notes on pages 30 through 41. Certain amounts for 1985 and 1984 have been reclassified to conform with 1986 classifications.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of the Corporation and all domestic and foreign subsidiaries which are more than 50% owned and engaged principally in manufacturing or wholesale marketing of General Motors products as well as defense, electronics and computer services. General Motors' share of earnings or losses of nonconsolidated subsidiaries and of associates in which at least 20% of the voting securities is owned is included in consolidated income under the equity method of accounting.

Revenue Recognition
Sales are generally recorded by the Corporation when products are shipped to independent dealers. Provisions for normal dealer sales incentives and returns and allowances are made at the time of sale. Costs related to special sales incentive programs are recognized as sales deductions when these incentive programs are announced.

Certain sales under long-term contracts, primarily in the defense business, are recorded using the percentage-of-completion method of accounting. Under this method, sales are recorded equivalent to costs incurred plus a portion of the profit expected to be realized on the contract, determined based on the ratio of costs incurred to estimated total costs at completion. Profits expected to be realized on contracts are based on the Corporation's estimates of total sales value and cost at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts are recorded in the period in which they are first identified.

Inventories
Inventories are stated generally at cost, which is not in excess of market. The cost of substantially all domestic inventories other than the inventories of GM Hughes Electronics Corporation (GMHE) is determined by the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method of inventory valuation had been used for inventories valued at LIFO cost, such inventories would have been about $2,203.8 million higher at December 31, 1986 and $2,196.3 million higher at December 31, 1985. As a result of decreases in LIFO eligible U.S. inventories, certain LIFO inventory quantities carried at lower costs prevailing in prior years, as compared with the costs of current purchases, were liquidated in 1986 and 1985. These inventory adjustments favorably affected income before income taxes by approximately $38.2 million in 1986 and $20.9 million in 1985. The cost of inventories outside the United States and of the inventories of GMHE is determined generally by FIFO or average cost methods.

Major Classes of Inventories (Dollars in Millions)	1986	1985
Productive material, work in process and supplies	$4,042.5	$5,591.5
Finished product, service parts, etc.	3,192.6	2,678.2
Total	$7,235.1	$8,269.7

Contracts in Process
Contracts in process are stated at costs incurred plus estimated profit less amounts billed to customers and advances and progress payments received. Engineering, tooling, manufacturing and applicable overhead costs, including administrative, research and development and selling expenses, are charged to cost of sales when they are incurred. Contracts in process include amounts relating to contracts with long production cycles. Although shown as a current asset, approximately $230.0 million of the 1986 amounts are not expected to be collected within one year. Under certain contracts with the United States Government, progress payments are received based on costs incurred on the respective contracts. Title to the inventories relating to such contracts (included in contracts in process) vests with the United States Government.

Depreciation and Amortization
Depreciation is provided on groups of property using, primarily, an accelerated method which accumulates depreciation of approximately two-thirds of the depreciable cost during the first half of the estimated lives of the property.

Expenditures for special tools are amortized over short periods of time because the utility value of the tools is radically affected by frequent changes in the design of the functional components and appearance of the product. Amortization is applied directly to the asset account. Replacement of special tools for reasons other than changes in products is charged directly to cost of sales.

Income Taxes
Investment tax credits are generally deferred and amortized over the lives of the related assets (the "deferral method"). In 1985, Electronic Data Systems Corporation (EDS) changed its method of accounting for investment tax credits from the flow-through method to the deferral method used by the Corporation. The effect of the change was to reduce 1985 earnings attributable to Class E common stock by $0.41 per share and defer the recognition of investment tax credits to earnings attributable to Class E common stock in future years. GMHE recognizes investment tax credits as a reduction of income tax expense in the year that the assets which give rise to the credits are placed in service (the "flow-through method").

The tax effects of timing differences between pretax accounting income and taxable income (principally related to depreciation, sales and product allowances, vehicle instalment sales, benefit plans expense and profits on long-term contracts) are deferred. Provisions are made for estimated United States and foreign taxes, less available tax credits and deductions, which may be incurred on remittance of the Corporation's share of subsidiaries' undistributed earnings less those deemed to be permanently reinvested.

Pension Program
As described in Note 8, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, effective January 1, 1986 for its U.S. and Canadian pension plans and will adopt the new accounting standard for other foreign pension plans by 1989. Adoption of SFAS No. 87 had the effect of reducing 1986 pension expense by $640.9 million and increasing consolidated net income by $330.5 million or $0.96 per share of $1-2/3 par value common stock, $0.04 per share of Class E common stock and $0.34 per share of Class H common stock. In addition, a change in pension plan actuarial assumptions made in June 1986, as recommended by GM's independent actuary to reflect the increased yield on investments, had the effect of decreasing 1986 pension expense by $381.6 million and increasing 1986 consolidated net income by $195.6 million or $0.61 per share of $1-2/3 par value common stock.

Product Related Expenses
Expenditures for advertising and sales promotion and for other product related expenses are charged to costs and expenses as incurred; provisions for estimated costs related to product warranty are made at the time the products are sold. Expenditures for research and development are charged to expenses as incurred and amounted to $4,157.7 million in 1986, $3,625.2 million in 1985 and $3,075.8 million in 1984.

Interest Cost
Total interest cost incurred in 1986, 1985 and 1984 amounted to $1,137.0 million, $944.9 million and $932.5 million, respectively, of which $183.3 million, $52.6 million and $23.3 million, related to certain real estate, plants and equipment acquired in those years, was capitalized.

Foreign Currency Translation
Assets and liabilities of operations outside the United States, except for operations in highly inflationary economies (principally in Latin America) or those that are highly integrated with the U.S. operations of the Corporation (principally in Canada), are translated into U.S. dollars using current exchange rates, and the effects

(continued)

NOTE 1. (concluded)

of foreign currency translation adjustments are deferred and included as a component of stockholders' equity. For operations in highly inflationary economies or that are highly integrated with U.S. operations, foreign currency translation adjustments are generally included in income. Exchange and translation gains (losses) included in net income in 1986, 1985 and 1984 amounted to $102.2 million, $54.1 million and ($114.8) million, respectively.

Acquisitions and Intangible Assets
Effective December 31, 1985, the Corporation acquired Hughes Aircraft Company (Hughes) and its subsidiaries for $2.7 billion in cash and cash equivalents and 50 million shares of General Motors Class H common stock having an estimated total value of $2,561.9 million. In addition, the Corporation has contingently agreed to pay the Howard Hughes Medical Institute (Institute) on December 31, 1989, for each share of Class H common stock issued in connection with the acquisition and held by the Institute on that date, the amount, if any, by which the market value per share of Class H common stock is below $60; provided that such payment shall not be greater than $40 per share. Any payment required under this contingency provision will be charged to capital surplus.

The acquisition was accounted for as a purchase. In view of the current policy of the Department of Defense and a previous decision of the Armed Services Board of Contract Appeals, there is substantial uncertainty as to the recoverability through contracts with the U.S. Government of any increase in the book values of the net assets of a defense contractor as a result of a business combination accounted for as a purchase. Accordingly, the amounts assigned to the tangible net assets of Hughes at the date of acquisition did not differ materially from the historical net book values. The purchase price exceeded the net book value of Hughes by $4,244.7 million, which was assigned as follows: $500.0 million to patents and related technology, $125.0 million to the future economic benefits to the Corporation of the Hughes Long-Term Incentive Plan (LTIP), and $3,619.7 million to other intangible assets. The amounts assigned to the various intangible asset categories are being amortized on a straight-line basis: patents and related technology over 15 years, the future economic benefits of the Hughes LTIP over 5 years and other intangible assets over 40 years. Amortization is applied directly to the asset accounts.

Because the acquisition was made effective December 31, 1985, the Statement of Consolidated Income includes the operations of Hughes beginning January 1, 1986. Pro forma results of operations of General Motors as though the acquisition of Hughes had been effective at the beginning of 1985 and 1984 are as follows:

	Pro Forma	
(Dollars in Millions)	1985	1984
Net Sales and Revenues	$102,537.1	$89,706.2
Net Income	$ 4,023.5	$ 4,476.4
Earnings Per Share Attributable to:		
$1-2/3 par value common stock	$11.89	$13.61
Class E common stock	$ 1.57	$ 0.16
Class H common stock	$ 2.44	$ 2.59

For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of intangible assets arising from the acquisition of Hughes is charged against earnings attributable to $1-2/3 par value common stock. The effect on the 1986 earnings attributable to $1-2/3 par value common stock was a net charge of $95.0 million, consisting of the amortization of the intangible assets arising from the acquisition, the profit on intercompany transactions and the earnings of GMHE attributable to $1-2/3 par value common stock.

On October 18, 1984, the Corporation acquired EDS and its subsidiaries for $2,501.9 million. The acquisition was consummated through an offer to exchange EDS common stock for either (a) $44 in cash or (b) $35.20 in cash plus two-tenths of a share of Class E common stock plus a nontransferable contingent promissory note issued by GM. This note is payable seven years after closing in an amount equal to .2 times the excess of $62.50 (post-split) over the market price of the Class E common stock at the maturity date of the note. Holders may tender their notes for prepayment at discounted amounts beginning five years after closing.

In December 1986, the Corporation reacquired 11,791,790 shares of Class E common stock and related contingent notes issued in the acquisition from certain employes and former stockholders of EDS for $751.5 million (see Note 15), including $343.2 million attributable to contingent notes. The cost of the contingent notes, less certain income tax benefits, was assigned principally to intangible assets, including goodwill.

If the market price of Class E common stock at the maturity date of the notes were to equal the market price at December 31, 1986, $24.88 a share, the aggregate additional consideration for contingent notes outstanding at December 31, 1986 would be $394.0 million. Any additional consideration will be charged to goodwill and amortized over the remaining life of that asset.

The acquisition of EDS was accounted for as a purchase. The purchase price in excess of the net book value of EDS, $2,179.5 million, was assigned principally to existing customer contracts, $1,069.9 million, computer software programs developed by EDS, $646.2 million, and other intangible assets, including goodwill, $290.2 million. The cost assigned to these assets is being amortized on a straight-line basis over five years for computer software programs, about seven years for customer contracts, ten years for goodwill and varying periods for the remainder. Amortization is applied directly to the asset accounts.

The Statement of Consolidated Income includes the operations of EDS since October 18, 1984. For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of these assets is charged against earnings attributable to $1-2/3 par value common stock. The effect on the 1986, 1985 and 1984 earnings attributable to $1-2/3 par value common stock was a net charge of $260.2 million, $241.0 million and $31.7 million, respectively, consisting of the amortization of the intangible and other assets arising from the acquisition less related income tax effects, the profit on intercompany transactions and the earnings of EDS attributable to $1-2/3 par value common stock.

Earnings per share of $1-2/3 par value common stock would have been reduced by $0.66 in 1984 if the acquisition of EDS had been consummated at the beginning of that year.

NOTE 2. Net Sales and Revenues

Net sales and revenues includes sales to:

(Dollars in Millions)	1986	1985	1984
Nonconsolidated subsidiaries and associates	$ 845.3	$ 289.1	$ 121.6
Dealerships operating under dealership assistance plans	$2,435.3	$2,090.1	$1,917.4

Unrealized intercompany profits on sales to nonconsolidated subsidiaries and to associates are deferred.

NOTE 3. General Motors Incentive Program

The General Motors Incentive Program consists of the General Motors Bonus Plan, the General Motors Performance Achievement Plan and the General Motors Stock Option Plans. The Program was approved by the stockholders in 1982 and will be submitted for their approval at the 1987 Annual Meeting. The Program is administered by the Incentive and Compensation Committee of the Board of Directors (the Committee).

Bonus Plan
Under the provisions of the Bonus Plan, the maximum amount that may be credited to the reserve for awards for any year is

(continued)

NOTE 3. (concluded)

equal to 8% of the amount by which net earnings exceed $1 billion; provided, however, that the amount credited may not exceed the amount paid out as dividends on common stock during the year. The Committee may, at its discretion, direct that for any year an amount less than the maximum amount be credited to the reserve.

The Committee determined that the credit to the reserve for 1986 would be $169.1 million, and on February 2, 1987, the Committee granted awards of $169.1 million. In 1985, a credit of $260.7 million was made to the reserve. Actual awards for 1985 were $218.6 million. In 1984, a credit of $269.2 million was made to the reserve, an amount $35.0 million less than the maximum which could have been credited under the formula. Actual 1984 awards totaled $224.1 million.

Performance Achievement Plan

Under the provisions of the Performance Achievement Plan, the Committee established target awards for the initial three-year phase-in period ended in 1984, for the first five-year period ended in 1986, and for five-year periods ending in 1988 and 1990. Awards are established based on targeted relationships between Corporation earnings and worldwide industry sales during the award periods; the percentages of the target awards ultimately distributed to the participants are determined by the Committee based on actual results in relation to the established goals and individual performance. Accruals for awards under this plan were $8.9 million, $21.5 million and $33.2 million, respectively, for the three years ended December 31, 1986, 1985 and 1984.

Stock Option Plans

Incentive and nonqualified stock options granted under the Stock Option Plans generally are exercisable one-half after one year and one-half after two years from the dates of grant; the option prices are 100% of fair market value on the dates of grant. Options generally expire ten years from the dates of grant and are subject to earlier termination under certain conditions.

Stock Appreciation Rights (SARs) relating to outstanding stock options have been granted to certain officers of the Corporation. These SARs provide holders with the right to receive cash equal in value to the appreciation in the Corporation's common stock over the option price of the shares under option. These SARs are not exercisable during the first six months of their terms and can only be exercised during a quarterly "window period" following release of GM's quarterly or annual press release of earnings, and may be exercised only upon surrender of the related options and only to the extent that the related options are exercisable. SARs expire with the related options.

The utilization of SARs requires an accrual each year for the appreciation on the rights expected to be exercised. The amount of such accrual is dependent on the amount, if any, by which the fair market value of the common stock exceeds the related option price and on changes in fair market value during the period. Accruals for SARs were minimal in 1986, ($2.7) million in 1985 and $13.9 million in 1984.

Changes in the status of outstanding options were as follows:

$1-2/3 par value common stock	Option Prices	Shares Under Option
Outstanding at January 1, 1984	$38.25-$72.88	3,100,294
Granted	77.19	615,355
Exercised: Options	38.25-72.88	(794,828)
SARs	38.25-72.88	(231,539)
Terminated	38.25-72.88	(48,039)
Outstanding at December 31, 1984	38.25-77.19	2,641,243
Granted	67.94	1,132,605
Exercised: Options	38.25-72.88	(365,798)
SARs	38.25-72.88	(35,970)
Terminated	38.25-72.88	(30,692)
Outstanding at December 31, 1985	38.25-77.19	3,341,388
Granted	68.32	1,244,325
Exercised: Options	38.25-77.19	(385,984)
SARs	38.25-77.19	(51,859)
Terminated	38.25-77.19	(96,066)
Outstanding at December 31, 1986	$38.25-$77.19	4,051,804

The Corporation intends to deliver newly issued $1-2/3 par value common stock upon the exercise of the stock options. Options for 2,288,809 shares were exercisable at December 31, 1986; the maximum number of shares for which additional options may be granted under the Plans was 3,301,449 at December 31, 1986.

Common Stocks Held for the GM Incentive Program

Common stocks held for the GM Incentive Program are stated substantially at cost and are used exclusively for payment of Incentive Program liabilities.

(Dollars in Millions)	1986		1985	
	Shares	Amount	Shares	Amount
Balance at January 1	2,669,664	$190.2	2,072,694	$144.2
Acquired: $1-2/3	993,860	74.8	1,629,809	118.7
Class E	334,148	12.9	29,427	1.0
Class H	377,676	15.7	—	—
Delivered: $1-2/3	(1,406,299)	(100.8)	(1,023,688)	(73.0)
Class E	(29,721)	(1.0)	(38,578)	(.7)
Class H	(39,256)	(1.5)	—	—
Bal. at Dec. 31: $1-2/3	2,228,108	163.2	2,640,547	189.2
Class E	333,544	12.9	29,117	1.0
Class H	338,420	14.2	—	—
Total	2,900,072	$190.3	2,669,664	$190.2

NOTE 4. EDS Incentive Plans

The GM Board of Directors has approved and adopted the 1984 Electronic Data Systems Corporation Stock Incentive Plan in accordance with stockholder approval obtained in connection with GM's acquisition of EDS. Under this Plan, shares, rights or options to acquire up to 40 million shares of Class E common stock may be granted or sold during the ten-year life of the Plan.

The EDS incentive and compensation committee has granted to key employes rights to purchase a total of 6,710,040 shares of Class E common stock at prices of $0.05 and $0.10 per share. Class E shares sold under this Plan are subject to restrictions and vest over a ten-year period from the date the stock purchase rights are granted. An expense of $17.1 million and $13.2 million was recorded for these awards in 1986 and 1985, respectively.

In 1985, the committee also granted incentive stock options at a price of $35.82 per share under the provisions of the 1984 Plan.

(continued)

NOTE 4. (concluded)

The option price is equal to 100% of the fair market value of Class E common stock on the date the options were granted. These incentive stock options expire six years from dates of grant and are subject to earlier termination under certain conditions. Changes in the status of outstanding options were as follows:

Class E common stock	Shares Under Option
Granted in 1985	4,082,500
Terminated	(38,300)
Outstanding at December 31, 1985	4,044,200
Exercised	(1,000)
Terminated	(255,450)
Outstanding at December 31, 1986	3,787,750

At December 31, 1986, options for 939,100 Class E common shares were exercisable, and the maximum number of shares for which additional shares, rights or options may be granted or sold under the Plan was 29,501,210 shares.

As a part of the agreement for the acquisition of EDS by GM, the 2,270,160 unvested shares of EDS common stock sold under the EDS 1977 Stock Incentive Plan were converted at the date of the acquisition into an equal number of unvested shares of Class E common stock (4,540,320 shares on a post-split basis). In addition, EDS employes holding unvested shares under the 1977 Plan may receive deferred compensation payments under certain conditions. These payments are intended to compensate employes for the income tax consequences of realizing certain income taxed at ordinary income rates rather than at long-term capital gain rates.

EDS also has a bonus plan under which awards are granted to key executives and employes. The amounts accrued for this plan were $23.2 million in 1986 and $16.9 million in 1985.

NOTE 5. GMHE Incentive Plans

In 1985, stockholder approval was obtained in connection with GM's acquisition of Hughes for a GMHE Incentive Plan. Under this Plan, shares, rights or options to acquire up to 10 million shares of Class H common stock may be granted or sold during the ten-year life of the Plan.

In 1986, contingent upon approval of the Board of Directors, the GM Incentive and Compensation Committee granted nonqualified stock options at a price of $39.50 per share to acquire 39,455 shares under the provisions of the GMHE Plan. The option price is equal to 100% of the fair market value of Class H common stock on the date the options were granted. These nonqualified options generally expire ten years from the dates of grant and are subject to earlier termination under certain conditions.

At December 31, 1986, no options for Class H common shares were exercisable, and the maximum number of shares for which additional shares, rights or options may be granted or sold under the Plan was 9,960,545 shares.

Prior to the acquisition of Hughes, the Hughes board of directors adopted the Hughes Long-Term Incentive Plan (LTIP). The LTIP was developed to provide incentives to employes to remain with Hughes, a factor considered significant in preserving the value of Hughes for a buyer. The LTIP provided approximately 1,000 key scientists, engineers and managers of Hughes with restricted cash units, which entitle participants to receive payments from a trust established and funded pursuant to the terms of the LTIP. Concurrent with the acquisition of Hughes, $250 million was contributed to the trust by Hughes, and Hughes incurred a non-recurring preacquisition charge of about $125 million (net of the related income tax effects). In 1986, the LTIP was amended to allow participants on a one-time basis to convert restricted cash units to Class H common stock. A total of 113,517 restricted cash units were converted to 3.7 million shares of Class H common stock at a price of $40.06 per share.

Hughes also maintains supplemental compensation plans under which awards are currently granted to officers and other key employes. Amounts available for awards under the plans totaled $26.2 million in 1986.

Key employes of GMHE and Delco Electronics Corporation also participate in the General Motors Incentive Program.

NOTE 6. Special Provision for Scheduled Plant Closings and Other Restructurings

In 1986, the Corporation announced plans to close certain manufacturing and assembly plants over the next three years and to restructure certain other operations. The 1986 results of operations include a special provision of $1,287.6 million for costs associated with these scheduled plant closings and other restructurings that can be reasonably estimated at the present time. This provision includes $802.9 million for scheduled plant closings in the U.S. and $484.7 million for various other restructurings of foreign operations. As a result of plant closings and other restructurings, consolidated net income was reduced by $291.3 million or $0.92 per share of $1-2/3 par value common stock.

NOTE 7. Other Income Less Income Deductions

(Dollars in Millions)	1986	1985	1984
Other income: Interest	$813.6	$1,328.3	$1,466.8
Other	223.3	143.6	302.4
Income deductions	(53.8)	(172.7)	(55.7)
Net	$983.1	$1,299.2	$1,713.5

NOTE 8. Pension Program and Postemployment Benefits

The Corporation and its subsidiaries have a number of defined benefit pension plans covering substantially all employes. Plans covering U.S. and Canadian represented employes generally provide benefits of negotiated stated amounts for each year of service as well as significant supplemental benefits for employes who retire with 30 years of service before normal retirement age. The benefits provided by the plans covering its U.S. and Canadian salaried employes are generally based on years of service and the employe's salary history. The Corporation and its consolidated subsidiaries also have certain nonqualified pension plans covering executives which are based on targeted wage replacement percentages and are generally unfunded currently.

Plan assets are primarily invested in United States government obligations, equity and fixed income securities, commingled pension trust funds and insurance contracts. The Corporation's funding policy with respect to its qualified plans is to contribute annually not less than the minimum required by applicable law and regulation nor more than the maximum amount which can be deducted for Federal income tax purposes.

During the fourth quarter of 1986, the Corporation adopted SFAS No. 87, Employers' Accounting for Pensions, with respect to all its U.S. and Canadian defined benefit pension plans, effective January 1, 1986. Application of SFAS No. 87 had the effect of increasing 1986 net income by $330.5 million or $0.96 per share of $1-2/3 par value common stock, $0.04 per share of Class E common stock and $0.34 per share of Class H common stock. In addition, the change in pension plan actuarial assumptions made in June 1986, as recommended by GM's independent actuary to reflect the increased yield on investments, had the effect of increasing 1986 net income by $195.6 million or $0.61 per share of $1-2/3 par value common stock.

Total pension expense of the Corporation and its consolidated subsidiaries amounted to $821.0 million in 1986, $1,674.8 million in 1985, and $1,618.4 million in 1984. The 1985 and 1984 pension expense does not include amounts for the Corporation's recently acquired Hughes subsidiary. Net periodic pension cost (credit) for 1986 of U.S. plans and plans of subsidiaries outside the United States for which SFAS No. 87 has been adopted included the components shown on the next page.

(continued)

NOTE 8. (concluded)

(Dollars in Millions)	U.S. Plans		Non-U.S. Plans	
Benefits earned during the year		$ 622.3		$ 17.8
Interest accrued on benefits earned in prior years		2,517.7		81.7
Return on assets				
—Actual	($6,711.2)		($153.9)	
—Less deferred gain	4,365.8	(2,345.4)	37.3	(116.6)
Net amortization		(59.7)		(24.0)
Net periodic pension cost (credit)		$ 734.9		($ 41.1)

The following table reconciles the funded status of the Corporation's U.S. and non-U.S. plans for which SFAS No. 87 has been adopted with amounts recognized in the Corporation's Consolidated Balance Sheet at December 31, 1986 and January 1, 1986.

Measurement dates used for the Corporation's principal U.S. plans are October 1 and December 31. For non-U.S. plans, the measurement date used was November 30.

(Dollars in Millions)	U.S. Plans				Non-U.S. Plans	
	December 31, 1986		January 1, 1986		December 31, 1986	January 1, 1986
	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets	Assets Exceed Accum. Benefits	Accum. Benefits Exceed Assets	Assets Exceed Accum. Benefits	Assets Exceed Accum. Benefits
Actuarial present value of benefits based on service to date and present pay levels						
Vested	$12,092.9	$14,728.0	$ 8,578.4	$11,514.4	$ 766.6	$ 658.6
Nonvested	963.8	2,951.9	192.4	1,785.7	58.7	47.2
Accumulated benefit obligation	13,056.7	17,679.9	8,770.8	13,300.1	825.3	705.8
Additional amounts related to projected pay increases	2,126.4	53.7	2,127.4	61.4	56.5	46.3
Total projected benefit obligation based on service to date	15,183.1	17,733.6	10,898.2	13,361.5	881.8	752.1
Plan assets at fair value	16,797.5	15,287.3	13,708.0	12,102.0	1,411.1	1,259.0
Projected benefit obligation (in excess of) or less than plan assets	1,614.4	(2,446.3)	2,809.8	(1,259.5)	529.3	506.9
Unamortized net amount resulting from changes in plan experience and actuarial assumptions	1,684.7	1,509.0	—	—	34.1	—
Unamortized net obligation or (asset) at date of adoption	(2,529.3)	1,884.6	(2,723.7)	2,019.2	(338.0)	(357.7)
Prepaid pension cost recognized in the Consolidated Balance Sheet	$ 769.8	$ 947.3	$ 86.1	$ 759.7	$ 225.4	$ 149.2

The weighted average discount rate used in determining the actuarial present values of the projected benefit obligation shown in the above table for U.S. plans was 8.5% at December 31, 1986 and 10.9% at January 1, 1986 and for non-U.S. plans was 10.25% at December 31, 1986 and 11.0% at January 1, 1986. The rate of increase in future compensation levels of U.S. salaried employes was 5.6% at December 31, 1986 and 5.8% at January 1, 1986 and of non-U.S. salaried employes was 5.0% at both dates. Benefits under the hourly plans are generally not based on wages and therefore no benefit escalation beyond existing negotiated increases was included. The expected long-term rate of return on assets for both U.S. and non-U.S. plans was 10.0%. The assumptions for non-U.S. plans were developed on a basis consistent with that for U.S. plans, adjusted to reflect prevailing economic conditions and interest rate environments.

The actuarial present value of accumulated benefits for the pension plans of subsidiaries outside the United States for which SFAS No. 87 has not yet been adopted has not been determined in the manner calculated and shown above. The total of these plans' pension funds and balance sheet accruals, less pension prepayments and deferred charges, exceeded the actuarially computed value of vested benefits by approximately $580.9 million at December 31, 1986 and $485.1 million at December 31, 1985.

In addition to providing pension benefits, the Corporation and certain of its subsidiaries provide certain health care and life insurance benefits for retired employes. Substantially all of the Corporation's employes, including employes in some foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the Corporation. The Corporation recognizes the cost of providing those benefits primarily by expensing the cost as incurred. The cost of such benefits amounted to $864.5 million in 1986, $836.5 million in 1985 and $806.1 million in 1984.

A program for early retirement or special separation is being offered to certain salaried employes. Expenses accrued in 1986 for the program were $88.2 million.

NOTE 9. United States, Foreign and Other Income Taxes (Credit)

(Dollars in Millions)	1986	1985	1984
Taxes estimated to be payable currently:			
United States Federal	($2,176.2)	$1,465.4	$1,151.7
Foreign	524.2	287.3	662.5
State and local	(200.5)	147.9	140.1
Total	(1,852.5)	1,900.6	1,954.3
Taxes deferred—net:			
United States Federal	1,413.8	(386.7)	8.3
Foreign	(202.4)	54.9	(170.6)
State and local	148.0	(4.6)	32.1
Total	1,359.4	(336.4)	(130.2)
Investment tax credits deferred—net:			
United States Federal	168.2	49.0	(15.1)
Foreign	24.6	17.1	(3.9)
Total	192.8	66.1	(19.0)
Total taxes (credit)	($ 300.3)	$1,630.3	$1,805.1

Investment tax credits entering into the determination of taxes estimated to be payable currently amounted to $568.6 million in 1986, $427.6 million in 1985 and $311.6 million in 1984.

The deferred taxes (credit) for timing differences consisted principally of the following: 1986—$173.3 million for depreciation, $954.1 million for sales and product allowances, $420.9 million for vehicle instalment sales, $247.8 million for benefit plans expense and ($184.5) million for profits on long-term contracts; 1985—$269.0 million for depreciation, ($608.1) million for sales and product allowances and $125.1 million for pollution control bonds; and 1984—$762.6 million for benefit plans expense, ($305.5) million for sales and product allowances, $387.6 million for vehicle instalment sales, ($240.3) million for interest, ($125.1) million for pollution control bonds and ($435.7) million for the domestic international sales corporation (DISC).

Income before income taxes included the following components:

(Dollars in Millions)	1986	1985	1984
Domestic income	$ 87.4	$3,690.5	$4,513.6
Foreign income	1,372.9	930.8	990.7
Total	$1,460.3	$4,621.3	$5,504.3

The consolidated income tax (credit) was different than the amount computed at the United States statutory income tax rate for the reasons set forth in the table below.

(Dollars in Millions)	1986	1985	1984
Expected tax at U.S. statutory income tax rate	$671.7	$2,125.8	$2,532.0
Investment tax credits amortized	(375.8)	(361.5)	(330.6)
Foreign tax rate differential	19.9	(7.2)	135.9
State and local income taxes	29.6	77.4	93.0
Deferred income tax reversal on the DISC	—	—	(421.3)
Taxes on undistributed earnings of subsidiaries	—	—	(112.2)
Research and development credit	(86.7)	(147.0)	(73.5)
Tax benefit from restructuring of foreign operations	(404.0)	—	—
ESOP credit and related adjustments	(76.4)	(75.2)	(42.2)
Tax effect of foreign dividends	(96.2)	(19.3)	(7.5)
Other adjustments	17.6	37.3	31.5
Consolidated income tax (credit)	($300.3)	$1,630.3	$1,805.1

NOTE 10. Earnings Per Share Attributable to and Dividends on Common Stocks

Earnings per share attributable to common stocks have been determined based on the relative rights of $1-2/3 par value common, Class E common and Class H common stocks to participate in dividends. The effect on earnings per share of $1-2/3 par value common stock resulting from the assumed exercise of outstanding options and delivery of bonus awards is not material. The operations of the EDS and GMHE Incentive Plans do not have a material dilutive effect on earnings per share of Class E common or Class H common stocks, respectively, at this time.

Dividends on the $1-2/3 par value common stock are declared out of the earnings of GM and its subsidiaries, excluding the Available Separate Consolidated Net Income of EDS and GMHE.

In connection with the authorization of the Class H common stock issued in December 1985 in the acquisition of Hughes, the stockholders of the Corporation approved certain amendments to the General Motors Certificate of Incorporation to redefine the earnings available for payment of dividends on Class E common stock. As a result of the amendment, earnings attributable to Class E common stock are determined and reported on a basis consistent with the earnings that the GM Board of Directors had previously treated as available for payment of dividends on that class. Because the amendment was retroactive to the date that the Class E common shares were first issued, previously reported earnings and earnings per share attributable to common stocks were restated. The amendment had the effect of increasing earnings per share attributable to $1-2/3 par value common stock by $0.27 per share in 1985 and $0.05 per share in 1984.

Dividends on the Class E common stock are declared out of the Available Separate Consolidated Net Income of EDS earned since the acquisition of EDS by GM. The Available Separate Consolidated Net Income of EDS is determined quarterly and is equal to the separate consolidated net income of EDS, excluding the effects of purchase accounting adjustments arising from the acquisition of EDS, multiplied by a fraction, the numerator of which is the weighted average number of shares of Class E common stock outstanding during the period and the denominator of which is currently 121.9 million shares.

Dividends on the Class H common stock are declared out of the Available Separate Consolidated Net Income of GMHE earned after December 31, 1985, the date the Hughes acquisition was made effective. The Available Separate Consolidated Net Income of GMHE is determined quarterly and is equal to the separate consolidated net income of GMHE, excluding the effects of purchase accounting adjustments arising from the acquisition of Hughes, multiplied by a fraction, the numerator of which is the weighted average number of shares of Class H common stock outstanding during the period and the denominator of which is currently 200 million shares.

The denominators used in determining the Available Separate Consolidated Net Income of EDS and GMHE will be adjusted as deemed appropriate by the Board of Directors to reflect subdivisions or combinations of the Class E common and Class H common stocks and to reflect certain transfers of capital to or from EDS and GMHE.

Dividends may be paid on common stocks only when, as and if declared by the Board of Directors in its sole discretion. The Board's policy with respect to $1-2/3 par value common stock is to distribute dividends based on the outlook and the indicated capital needs of the business. The current policy of the Board of Directors with respect to the Class E common and Class H common stocks is to pay cash dividends approximately equal to 25% of the Available Separate Consolidated Net Income of EDS and GMHE, respectively, for the prior year.

NOTE 11. General Motors Acceptance Corporation and Subsidiaries

Condensed Consolidated Balance Sheet (Dollars in Millions)	1986	1985
Cash and investments in securities	$ 3,295.5	$ 2,787.7
Finance receivables—net	73,516.7	65,725.7
Notes receivable from General Motors Corporation	5,500.0	300.0
Other assets	8,468.7	6,634.8
Total Assets	$90,780.9	$75,448.2
Short-term debt	$50,968.4	$42,642.9
Accounts payable and other liabilities (including GM and affiliates—$1,387.1 and $4,038.7)	7,800.7	8,548.0
Long-term debt	25,629.7	19,110.5
Stockholder's equity	6,382.1	5,146.8
Total Liabilities and Stockholder's Equity	$90,780.9	$75,448.2

Condensed Statement of Consolidated Income (Dollars in Millions)	1986	1985	1984
Gross Revenue	$13,069.9	$ 9,755.8	$ 8,098.6
Interest and discount	6,188.5	5,121.8	4,772.4
Other expenses	5,696.3	3,613.0	2,541.4
Total Expenses	11,884.8	8,734.8	7,313.8
Net Income	$ 1,185.1	$ 1,021.0	$ 784.8

Interest is paid to General Motors on settlements of wholesale financing of product sales which are made beyond transit time.

Under the special rate programs sponsored by General Motors, an interest rate differential is paid to GMAC. These payments are included in unearned income by GMAC and are recognized over the life of the related contracts. Amounts recognized constituted less than 11% of GMAC gross revenues in 1986, compared with 3% in 1985 and 4% in 1984.

For marketing and financial reasons, GM assumed part of the dealer inventory financing previously provided by GMAC. Accordingly, on September 30, 1986, General Motors entered into a five-year financing agreement with GMAC which provides that GMAC will extend loans to GM up to a maximum of $12 billion which will bear interest at floating market rates. This financing agreement ensures that GMAC's ongoing funding activities continue and returns to GMAC the approximate amount of interest it would have earned had it retained the dealer inventory financing business. At December 31, 1986, $5,200 million was outstanding under this agreement at a rate of 7.4%.

NOTE 12. Real Estate, Plants and Equipment and Accumulated Depreciation

(Dollars in Millions)	1986	1985
Real estate, plants and equipment (Note 14):		
Land	$ 610.9	$ 599.2
Land improvements	1,438.2	1,297.8
Leasehold improvements—less amortization	68.0	79.4
Buildings	10,930.0	9,545.6
Machinery and equipment	35,326.5	29,580.9
Furniture and office equipment	1,959.8	1,407.8
Satellites and related facilities	284.1	270.0
Capitalized leases	938.2	968.0
Construction in progress	3,685.0	3,518.4
Total	$55,240.7	$47,267.1
Accumulated depreciation:		
Land improvements	$ 853.0	$ 759.9
Buildings	4,929.9	4,453.6
Machinery and equipment	20,548.8	18,149.5
Furniture and office equipment	803.7	479.4
Satellites and related facilities	46.3	—
Capitalized leases	476.3	482.6
Total	$27,658.0	$24,325.0

Gross property increased in 1986 by $1,467.9 million as a result of foreign currency translation adjustments. Net book value increased $617.0 million because of such adjustments.

NOTE 13. Accrued Liabilities and Deferred Income Taxes

(Dollars in Millions)	1986	1985
Taxes, other than income taxes	$ 1,228.8	$ 1,158.3
Payrolls	2,174.9	2,353.5
Employe benefits	372.5	571.1
Dealer and customer allowances, claims, discounts, etc.	3,938.6	4,659.7
Other, including deferred income taxes	5,702.1	3,335.4
Total	$13,416.9	$12,078.0

NOTE 14. Long-Term Debt

(Dollars in Millions)	Interest Rate	Maturity	1986	1985
GM:				
U.S. dollars:				
Notes	12.20 %	1988	$ 75.0	$ 150.0
Notes	14.70	1991	250.0	250.0
Notes	8.125	1991	300.0	—
Notes	7.50	1993	400.0	—
Debentures	8.625	2005	102.4	102.4
Debentures	8.125	2016	500.0	—
Other	6.59	1988-2001	151.4	57.8
Other currencies:				
British pounds	10.92	Indefinite	181.0	21.7
Japanese yen	7.91	1991	139.2	—
Swiss francs	7.00	1996	161.9	—
German marks	5.75	1996	104.1	—
Other			—	.2
Consolidated subsidiaries:				
U.S. dollars	8.82	1988-2011	839.2	987.1
Spanish pesetas	11.73	1988-92	526.3	629.1
German marks	5.04	1988-96	89.7	70.9
Austrian schillings	6.40	1988	10.0	84.1
Other currencies	Various	1988-95	265.6	241.3
Total			4,095.8	2,594.6
Less unamortized discount (principally on 14.7% notes due 1991)			88.5	94.4
Total			$4,007.3	$2,500.2

(continued)

NOTE 14. (concluded)

At year-end 1986, the Corporation and its consolidated subsidiaries had unused short-term credit lines of approximately $3.0 billion and unused long-term credit agreements of approximately $1.8 billion. Long-term debt at December 31, 1986 and 1985 included approximately $597 million and $702 million, respectively, of short-term obligations which are intended to be renewed or refinanced under long-term credit agreements. Long-term debt (including current portion) bore interest at a weighted average rate of approximately 10.8% at December 31, 1986 and 12.5% at December 31, 1985.

In 1981, the Corporation and a subsidiary arranged a private financing of $500 million in 14.7% notes due 1991. An option to acquire certain real estate in 1991 was also granted. The option holder may deliver the notes in payment for the real estate.

Under the sinking fund provisions of the trust indenture for the Corporation's 8⅝% Debentures due 2005, the Corporation is to make annual sinking fund payments of $3.0 million in 2002 and $11.8 million in each of the years 2003 and 2004.

Maturities of long-term debt in the years 1987 through 1991 are (in millions) $401.4 (included in loans payable at December 31, 1986), $397.0, $156.8, $177.0 and $1,379.4.

Loans payable at December 31, 1985 included the current portion of long-term debt in the amount of $446.9 million.

NOTE 15. Stockholders' Equity

The preferred stock is subject to redemption at the option of the Board of Directors on any dividend date on not less than thirty days' notice at the redemption prices stated in the following table plus accrued dividends.

Holders of $1-2/3 par value common stock, Class E common stock and Class H common stock are entitled to one, one-quarter and one-half vote per share, respectively, on all matters submitted to the stockholders for a vote. The liquidation rights of common stockholders are based on per share liquidation units of the various classes and are subject to certain adjustments if outstanding common stock is subdivided, by stock split or otherwise, or if shares of one class of common stock are issued as a dividend to holders of another class of common stock. At December 31, 1986, each share of $1-2/3 par value common, Class E common and Class H common stock was entitled to a liquidation unit of approximately one, one-quarter and one-half, respectively.

In December 1986, the Corporation reacquired 11,791,790 shares of Class E common stock and related contingent notes issued in the EDS acquisition from certain employes and former stockholders of EDS for $751.5 million, including $389.1 million, or $33 per share, attributable to Class E common stock (see Note 1).

After December 31, 1994 or December 31, 1995, the Board of Directors may exchange $1-2/3 par value common stock for Class E common stock or for Class H common stock, respectively, if the Board has declared and paid certain minimum cash dividends during each of the five years preceding the exchange. If GM should sell, liquidate, or otherwise dispose of EDS or Hughes (or substantially all of the other business of GMHE), the Corporation will be required to exchange $1-2/3 par value common stock for Class E common or Class H common stock, respectively. In the event of any exchange, the Class E common or Class H common stockholders will receive $1-2/3 par value common stock having a market value at the time of the exchange equal to 120% of the market value of the Class E common or Class H common stock exchanged.

The Certificate of Incorporation provides that no cash dividends may be paid on the $1-2/3 par value common stock, Class E common stock, Class H common stock or any series of preference stock so long as current assets (excluding prepaid expenses) in excess of current liabilities of the Corporation are less than $75 per share of outstanding preferred stock. Such current assets (with inventories calculated on the FIFO basis) in excess of current liabilities were greater than $75 in respect of each share of outstanding preferred stock at December 31, 1986 and 1985.

The equity of the Corporation and its consolidated subsidiaries in the accumulated net income or loss, since acquisition, of associates has been included in net income retained for use in the business.

At December 31, 1986, consolidated net income retained for use in the business attributable to $1-2/3 par value common, Class E common and Class H common stocks was $23,530.9 million, $206.2 million and $151.6 million, respectively.

(Dollars in Millions Except Per Share Amounts)	1986	1985	1984
Capital Stock:			
Preferred Stock, without par value, cumulative dividends (authorized, 6,000,000 shares):			
$5.00 series, stated value $100 per share, redeemable at Corporation option at $120 per share:			
Outstanding at beginning of the year (1,693,294 shares in 1986, 1,698,294 in 1985 and 1,835,644 in 1984)	$169.3	$169.8	$183.6
Reacquired on the open market (163,100 shares in 1986, 5,000 in 1985 and 137,350 in 1984)	(16.3)	(.5)	(13.8)
Outstanding at end of the year (1,530,194 shares in 1986, 1,693,294 in 1985 and 1,698,294 in 1984)	153.0	169.3	169.8
$3.75 series, stated value $100 per share, redeemable at Corporation option at $100 per share:			
Outstanding at beginning of the year (814,100 shares in 1986, 858,000 in 1985 and 1,000,000 in 1984)	81.4	85.8	100.0
Reacquired on the open market (43,900 shares in 1985 and 142,000 in 1984)	–	(4.4)	(14.2)
Outstanding at end of the year (814,100 shares in 1986 and 1985 and 858,000 in 1984)	81.4	81.4	85.8
Preference Stock, $0.10 par value (authorized, 100,000,000 shares in 1984), no shares issued	–	–	–
Common Stock, $1-2/3 par value (authorized, 1,000,000,000 shares):			
Issued at beginning of the year (318,853,315 shares in 1986, 317,504,133 in 1985 and 315,711,299 in 1984)	531.4	529.2	526.2
Reacquired on the open market and cancelled (761,390 shares)	(1.3)	–	–
Newly issued shares used for bonus deliveries and sold under provisions of the Stock Option Plans and the Dividend Reinvestment Plan (1,291,905 shares in 1986, 1,349,182 in 1985 and 1,792,834 in 1984)	2.2	2.2	3.0
Issued at end of the year (319,383,830 shares in 1986, 318,853,315 in 1985 and 317,504,133 in 1984)	$532.3	$531.4	$529.2

(continued)

NOTE 15. (continued)

(Dollars in Millions Except Per Share Amounts)	1986	1985	1984
Class E Common Stock, $0.10 par value (authorized, 190,000,000 shares in 1984):			
Issued at beginning of the year (66,227,137 shares in 1986 and 29,082,382 in 1985)	$ 6.6	$ 2.9	$ —
Reacquired from certain employes and former stockholders of EDS (11,791,790 shares)	(1.2)	—	—
Issued as a public offering (3,125,000 shares)	—	.3	—
Two-for-one stock split in the form of a 100% stock dividend (31,742,670 shares)	—	3.2	—
Reacquired on the open market (2,417,206 shares in 1986 and 651,804 in 1985)	(.2)	(.1)	—
Issued in the acquisition of EDS in 1984 (11,371,268 shares)	—	—	1.1
Issued in conjunction with EDS Incentive Plans and other employe stock plans (1,488,978 shares in 1986, 2,928,889 in 1985 and 2,270,160 in 1984) (Note 4)	.2	.3	.2
Issued to $1-2/3 par value common stockholders as a dividend (15,440,954 shares)	—	—	1.6
Issued at end of the year (53,507,119 shares in 1986, 66,227,137 in 1985 and 29,082,382 in 1984)	5.4	6.6	2.9
Class H Common Stock, $0.10 par value (authorized, 600,000,000 shares in 1985):			
Issued at beginning of the year (65,495,316 shares)	6.6	—	—
Issued in conjunction with GMHE Incentive Plans and other employe stock plans (4,156,598 shares)	.3	—	—
Reacquired on the open market (3,066,582 shares)	(.3)	—	—
Issued in the acquisition of Hughes in 1985 (50,000,000 shares)	—	5.0	—
Issued to $1-2/3 par value common stockholders as a dividend (15,495,316 shares)	—	1.6	—
Issued at end of the year (66,585,332 shares in 1986 and 65,495,316 in 1985)	6.6	6.6	—
Total capital stock at end of the year	778.7	795.3	787.7
Capital Surplus (principally additional paid-in capital):			
Balance at beginning of the year	6,667.8	3,347.8	2,136.8
Preferred stock:			
Stated value in excess of repurchase price of shares reacquired on the open market	6.2	2.9	16.2
$1-2/3 par value common stock:			
Repurchase price in excess of par value of shares reacquired on the open market and cancelled	(52.1)	—	—
Proceeds in excess of par value of newly issued shares used for the GM Incentive Program and the Dividend Reinvestment Plan	89.5	90.7	109.7
Class E common stock:			
Repurchase price in excess of par value:			
Shares reacquired from certain employes and former stockholders of EDS	(387.9)	—	—
Shares reacquired on the open market	(92.0)	(125.8)	—
Amounts in excess of par value:			
Issued as a public offering	—	193.3	—
Issued in the acquisition of EDS	—	—	499.2
Issued in conjunction with EDS Incentive Plans and other employe stock plans	68.6	34.7	.8
Issued as a dividend	—	—	585.1
Amount transferred to Class E common stock in conjunction with two-for-one stock split in the form of a 100% stock dividend	—	(3.2)	—
Class H common stock:			
Repurchase price in excess of par value of shares reacquired on the open market	(134.3)	—	—
Amounts in excess of par value:			
Issued in conjunction with GMHE Incentive Plans and other employe stock plans	166.8	—	—
Issued in the acquisition of Hughes	—	2,556.9	—
Issued as a dividend	—	570.5	—
Balance at end of the year	6,332.6	6,667.8	3,347.8
Net Income Retained for Use in the Business:			
Balance at beginning of the year	22,606.6	20,796.6	18,390.5
Net income	2,944.7	3,999.0	4,516.5
Total	25,551.3	24,795.6	22,907.0
Dividend of one Class E common share for each 20 shares of $1-2/3 par value common outstanding	—	—	586.7
Dividend of one Class H common share for each 20 shares of $1-2/3 par value common outstanding	(.5)	572.1	—
Cash dividends:			
Preferred stock, $5.00 series, $5.00 per share	7.8	8.4	8.9
Preferred stock, $3.75 series, $3.75 per share	3.0	3.2	3.6
$1-2/3 par value common stock, $5.00 per share in 1986 and 1985 and $4.75 in 1984	1,588.0	1,581.2	1,497.5
Class E common stock, $0.40 per share in 1986, $0.195 in 1985 and $0.045 in 1984 (post-split)	25.9	12.4	1.2
Class H common stock, $0.60 per share	38.4	—	—
Cash payments in lieu of fractional shares of common stock issued as a dividend:			
Class E common	—	—	12.5
Class H common	—	11.7	—
Total cash dividends	1,663.1	1,616.9	1,523.7
Balance at end of the year	$23,888.7	$22,606.6	$20,796.6

(continued)

NOTE 15. (concluded)

(Dollars in Millions)	1986	1985	1984
Accumulated Foreign Currency Translation and Other Adjustments:			
Balance at beginning of the year:			
Accumulated foreign currency translation adjustments	($ 675.0)	($ 789.5)	($ 661.8)
Net unrealized gains on marketable equity securities	130.0	71.7	91.3
Changes during the year:			
Accumulated foreign currency translation adjustments	192.2	114.5	(127.7)
Net unrealized gains (losses) on marketable equity securities	30.8	58.3	(19.6)
Balance at end of the year	(322.0)	(545.0)	(717.8)
Total Stockholders' Equity	$30,678.0	$29,524.7	$24,214.3

NOTE 16. Segment Reporting

Industry Segments

Prior to 1986, General Motors operated predominantly in the automotive products industry and, accordingly, did not present industry segment data. While the major portion of the Corporation's operations in 1986 was derived from the automotive products industry segment, it also produces products and services in the defense and other nonautomotive products industry segments. The automotive products segment consists of the manufacture, assembly and sale of automobiles, trucks and related parts and accessories. The defense products segment includes military vehicles, radar and weapon control systems, guided missile systems, as well as defense satellites. The other nonautomotive products segment consists of the design, installation and operation of business information and telecommunication systems; the design, development and manufacture of locomotives; engines for drilling, marine and stationary applications; commercial satellites and specialized automated production and test equipment. Because of the high degree of integration, substantial interdivisional and intersegment transfers of materials and services are made. Intersegment sales and revenues are made at negotiated selling prices.

Substantially all of General Motors' automotive and nonautomotive products are marketed through retail dealers and through distributors and jobbers in the United States and Canada and through distributors and dealers overseas. To assist in the merchandising of General Motors' products, GMAC and its subsidiaries offer financial services and certain types of automobile insurance to dealers and customers. In addition, subsidiaries of GMAC are engaged in mortgage banking operations.

Information concerning operations by industry segment is displayed below.

1986	Automotive Products	Defense Products	Other Non-automotive Products	Total
		(Dollars in Millions)		
Net Sales and Revenues:				
Outside	$90,740.2	$ 7,760.8	$ 4,312.7	$102,813.7
Intersegment	123.4	—	3,179.9	—
Total net sales and revenues	$90,863.6	$ 7,760.8	$ 7,492.6	$102,813.7*
Operating Profit	$ 2,014.3**	$ 285.8	$ 145.8	$ 2,445.9
Identifiable Assets at Year-End	$42,400.9	$ 8,733.6	$10,774.1	$ 61,908.6
Depreciation and Amortization	$ 5,188.9	$ 443.5	$ 961.3	$ 6,593.7
Capital Expenditures	$10,257.3	$ 500.2	$ 954.1	$ 11,711.6
Operating Profit				$ 2,445.9
Corporate Expenses				(1,015.0)
Operating Income				$ 1,430.9
Identifiable Assets				$ 61,908.6
Equity in Net Assets of Nonconsolidated Subsidiaries and Associates				7,232.3
Corporate Assets				13,312.9
Eliminations				(9,860.8)
Total Assets				$ 72,593.0

*After elimination of intersegment transactions.
**Includes a special provision for scheduled plant closings and other restructurings of $1,287.6 million.

Geographic Segments

Net sales and revenues, net income (loss), total and net assets and average number of employes in the U.S. and in locations outside the U.S. for 1986, 1985 and 1984 are summarized on the next page. Net income (loss) is after provisions for deferred income taxes applicable to that portion of the undistributed earnings not deemed to be permanently invested, less available tax credits and deductions, and appropriate consolidating adjustments. Interarea sales and revenues are made at negotiated selling prices.

(continued)

NOTE 16. (concluded)

1986	United States	Canada	Europe	Latin America	All Other	Total*
			(Dollars in Millions)			
Net Sales and Revenues:						
Outside	$82,977.0	$ 5,600.1	$10,675.8	$1,798.7	$1,762.1	$102,813.7
Interarea	8,366.1	7,817.4	462.2	899.2	59.7	—
Total net sales and revenues	$91,343.1	$13,417.5	$11,138.0	$2,697.9	$1,821.8	$102,813.7
Net Income (Loss)	$ 3,058.0	$ 381.9	($ 343.3)**	$ 32.6	($ 257.5)	$ 2,944.7
Total Assets	$57,668.8	$ 3,643.8	$ 7,590.3	$3,022.9	$1,862.5	$ 72,593.0
Net Assets	$27,525.0	$ 2,131.6	($ 593.2)	$1,299.1	$ 459.1	$ 30,678.0
Average Number of Employes (in thousands)	632	43	123	59	19	876

1985						
Net Sales and Revenues:						
Outside	$80,204.7	$ 5,283.7	$ 7,671.6	$1,841.9	$1,369.8	$ 96,371.7
Interarea	8,893.8	8,494.6	322.8	995.5	483.7	—
Total net sales and revenues	$89,098.5	$13,778.3	$ 7,994.4	$2,837.4	$1,853.5	$ 96,371.7
Net Income (Loss)	$ 3,624.3	$ 473.7	($ 372.1)	$ 308.3	$ 9.1	$ 3,999.0
Total Assets	$50,796.0	$ 2,920.1	$ 5,960.6	$3,054.2	$1,634.6	$ 63,832.8
Net Assets	$26,710.0	$ 1,906.4	($ 765.7)	$1,327.8	$ 572.2	$ 29,524.7
Average Number of Employes (in thousands)	561	44	125	59	22	811

1984						
Net Sales and Revenues:						
Outside	$69,355.6	$ 4,411.6	$ 6,735.7	$1,642.0	$1,745.0	$ 83,889.9
Interarea	7,276.5	8,170.0	242.2	823.6	401.7	—
Total net sales and revenues	$76,632.1	$12,581.6	$ 6,977.9	$2,465.6	$2,146.7	$ 83,889.9
Net Income (Loss)	$ 3,872.0	$ 762.2	($ 291.1)	$ 94.4	$ 61.5	$ 4,516.5
Total Assets	$41,692.7	$ 2,833.5	$ 4,425.7	$2,874.0	$ 932.0	$ 52,144.9
Net Assets	$22,149.7	$ 1,628.9	($ 439.2)	$1,016.7	$ 41.7	$ 24,214.3
Average Number of Employes (in thousands)	511	41	122	49	25	748

*After elimination of interarea transactions.
**Includes the effect of the termination of the heavy-duty truck portion of GM's European commercial vehicle operations.

NOTE 17. Profit Sharing Plans

Profit Sharing Plans were established, effective January 1, 1983, under which eligible United States hourly and salaried employes share in the success of the Corporation's U.S. operations. Under the Plans' provisions, 10% of profits, as defined, are shared when the Corporation's U.S. income before income taxes plus equity in U.S. earnings of nonconsolidated subsidiaries (principally GMAC) exceeds 10% of the net worth of U.S. operations plus 5% of the difference between total assets of U.S. operations and net worth of U.S. operations. Amounts applicable to subsidiaries incorporated in the U.S. that are operating outside of the U.S., as well as amounts applicable to associates, are excluded from the calculation. Ten percent of the profits in excess of the minimum annual return, less a diversion for the Guaranteed Income Stream Benefit Program and Income Protection Plan and that portion of profit sharing allocable to nonparticipating employes, are distributed to eligible U.S. employes by March 31 following the year earned.

GM's earnings in 1986 were not sufficient to generate a payout under the profit sharing formula. The accrual for profit sharing was $180.3 million in 1985 and $281.9 million in 1984. The profit sharing calculation for 1986 is shown below.

(Dollars in Millions)					1986
Minimum Annual Return	**January 1, 1986**	**December 31, 1986**	**Average**		
Total Assets in the U.S.	$50,796.0	$57,668.8			
Deduct assets of excluded subsidiaries and associates	706.5	1,015.1			
Total Assets of U.S. operations as defined in the Plans	$50,089.5	$56,653.7	$53,371.6		
Net Assets in the U.S.	$26,710.0	$27,525.0			
Deduct net assets of excluded subsidiaries and associates	701.9	685.6			
Net Worth of U.S. operations as defined in the Plans	$26,008.1	$26,839.4	26,423.7	X 10% =	$2,642.4
Other assets of U.S. operations			$26,947.9	X 5% =	1,347.4
Minimum Annual Return as defined in the Plans					$3,989.8

(continued)

NOTES TO FINANCIAL STATEMENTS (concluded)

NOTE 17. (concluded)

(Dollars in Millions)	1986
Profits as Defined in the Plans	
Net Income in the U.S.	$3,058.0
Add (Deduct): Net income of excluded subsidiaries and associates	(111.2)
Income taxes of U.S. operations	(610.0)
Provision for the General Motors Incentive Program applicable to U.S. operations	135.5
Profit sharing accrual	—
Profits as defined in the Plans	$2,472.3
Profit Sharing Accrual	
Profits as defined in the Plans	$2,472.3
Deduct Minimum Annual Return as defined in the Plans	3,989.8
Profits (less than) Minimum Annual Return	($1,517.5)

NOTE 18. Commitments and Contingent Liabilities

Minimum future commitments under operating leases having non-cancellable lease terms in excess of one year, primarily for real property, aggregating $2,759.8 million, are payable $538.9 million in 1987, $358.0 million in 1988, $258.7 million in 1989, $189.7 million in 1990, $140.1 million in 1991 and $1,274.4 million thereafter. Certain of the leases contain escalation clauses and renewal or purchase options. Rental expenses under operating leases were $882.4 million in 1986, $690.0 million in 1985 and $223.0 million in 1984.

There are serious potential liabilities under government regulations pertaining primarily to environmental, fuel economy and safety matters. There are also various claims and pending actions against the Corporation and its subsidiaries with respect to commercial matters, including warranties and product liability, civil rights, antitrust, patent matters, taxes and other matters arising out of the conduct of the business. Certain of these actions purport to be class actions, seeking damages in very large amounts. The ultimate liability under these government regulations and the amounts of liability on these claims and actions at December 31, 1986 were not determinable but, in the opinion of the management, the ultimate liability resulting should not have a material adverse effect on the Corporation's consolidated financial position.

ACCOUNTANTS' REPORT

Deloitte
Haskins+Sells

1114 Avenue of the Americas
New York, New York 10036

General Motors Corporation, its Directors and Stockholders:

February 5, 1987

We have examined the Consolidated Balance Sheet of General Motors Corporation and consolidated subsidiaries as of December 31, 1986 and 1985 and the related Statements of Consolidated Income and Changes in Consolidated Financial Position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies at December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1986, with which we concur, in the method of accounting for pensions as described in Notes 1 and 8 to the Financial Statements.

Deloitte Haskins + Sells

SUPPLEMENTARY INFORMATION

Selected Quarterly Data (Dollars in Millions Except Per Share Amounts)	1986 Quarters				1985 Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Net sales and revenues	$26,820.1	$27,625.3	$22,841.0	$25,527.3	$24,182.5	$25,056.9	$22,491.7	$24,640.6
Operating income (Loss)	1,365.4	1,085.8	(251.5)	(768.8)*	1,511.8	1,485.3	(20.9)	1,238.2
Income (Loss) before income taxes	1,391.2	1,087.4	(207.5)	(810.8)	1,632.2	1,664.4	74.8	1,249.9
United States, foreign and other income taxes (credit)	475.2	377.9	(236.2)	(917.2)	781.8	716.5	(172.4)	304.4
Income after income taxes	916.0	709.5	28.7	106.4	850.4	947.9	247.2	945.5
Equity in earnings of nonconsolidated subsidiaries and associates	282.9	308.9	316.4	275.9	221.3	211.4	269.3	306.0
Net income	1,198.9	1,018.4	345.1	382.3	1,071.7	1,159.3	516.5	1,251.5
Dividends on preferred stocks	2.8	2.7	2.6	2.7	2.9	2.9	3.0	2.8
Earnings on common stocks	$ 1,196.1	$ 1,015.7	$ 342.5	$ 379.6	$ 1,068.8	$ 1,156.4	$ 513.5	$ 1,248.7
Earnings attributable to:								
$1-2/3 par value common stock	$ 1,116.1	$ 928.1	$ 253.3	$ 310.2	$ 1,048.6	$ 1,132.8	$ 485.1	$ 1,217.1
Class E common stock	$ 29.9	$ 33.2	$ 37.5	$ 35.6	$ 20.2	$ 23.6	$ 28.4	$ 31.6
Class H common stock (issued in December 1985)	$ 50.1	$ 54.4	$ 51.7	$ 33.8	–	–	–	–
Average number of shares of common stocks outstanding (in millions):								
$1-2/3 par value common	317.3	317.8	317.8	317.7	316.2	316.4	316.4	316.3
Class E common	65.6	64.6	64.2	60.8	64.7**	67.8	66.7	67.0
Class H common (issued in December 1985)	65.3	63.9	63.3	63.2	–	–	–	65.5
Earnings per share attributable to:								
$1-2/3 par value common stock***	$3.52	$2.92	$0.80	$0.97	$3.32	$3.58	$1.53	$3.85
Class E common stock	$0.46	$0.51	$0.58	$0.58	$0.32**	$0.35	$0.43	$0.47
Class H common stock (issued in December 1985)	$0.77	$0.85	$0.82	$0.53	–	–	–	–
Cash dividends per share of common stocks:								
$1-2/3 par value common	$1.25	$1.25	$1.25	$1.25	$1.25	$1.25	$1.25	$1.25
Class E common	$0.10	$0.10	$0.10	$0.10	$0.045**	$0.05	$0.05	$0.05
Class H common (issued in December 1985)	$0.15	$0.15	$0.15	$0.15	–	–	–	–

Operating data as well as earnings and earnings per share attributable to $1-2/3 par value common and Class H common stocks for the first three 1986 quarters have been restated to reflect the adoption in the fourth quarter of Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, effective January 1, 1986. Previously reported earnings and earnings per share, respectively, attributable to such common stocks were as follows (in millions and in dollars): $1-2/3 par value common stock—$986.3 [$3.11], $892.7 [$2.81] and $176.7 [$0.56]; Class H common stock—$44.8 [$0.69], $49.1 [$0.76] and $46.9 [$0.74]. The effective income tax rates and credits for the 1986 quarters reflect the earnings, the continuing amortization of U.S. investment tax credits and, in the fourth quarter, recognition of tax benefits from restructuring foreign operations.

The effective income tax rates and credit for the 1985 quarters reflect the favorable impact of U.S. investment tax credits. Earnings and earnings per share attributable to common stocks in 1985 have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985. Previously reported earnings and earnings per share, respectively, attributable to common stocks for the first three quarters of 1985 were as follows (in millions and in dollars): $1-2/3 par value common stock—$1,030.8 [$3.26], $1,113.9 [$3.52] and $461.6 [$1.46]; Class E common stock—$38.0 [$0.63], $42.5 [$0.67] and $51.9 [$0.78].

*Includes a special provision for scheduled plant closings and other restructurings of $1,216.6 million.

**Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

***Includes favorable (unfavorable) effects on earnings per share of: adoption of SFAS No. 87 in 1986: first quarter—$0.41, second quarter—$0.11, third quarter—$0.24, fourth quarter—$0.20; revisions to pension plan actuarial assumptions in 1986: second quarter—$0.32, third quarter—$0.10, fourth quarter—$0.19; and foreign exchange/translation activity [1986: first quarter—$0.26, second quarter—($0.14), third quarter—($0.02), fourth quarter—($0.14); 1985: first quarter—($0.18), second quarter—($0.23), third quarter—$0.38, fourth quarter $0.28].

(continued)

SUPPLEMENTARY INFORMATION (concluded)

Selected Quarterly Data (concluded)

(Dollars in Per Share Amounts)		1986 Quarters 1st	2nd	3rd	4th	1985 Quarters 1st	2nd	3rd	4th
Stock price range:									
$1-2/3 par value common*:	High	$88.63	$86.38	$78.75	$75.00	$85.00	$75.13	$73.88	$77.25
	Low	$68.38	$74.63	$66.88	$65.88	$72.50	$66.00	$65.75	$64.25
Class E common**:	High	$47.25	$49.63	$48.75	$37.25	$36.00	$42.00	$46.50	$43.63
	Low	$36.13	$42.63	$32.50	$24.75	$20.63	$29.75	$35.00	$32.88
Class H common (issued Dec. 1985)***:	High	$49.25	$47.75	$43.25	$44.00	–	–	–	$50.00
	Low	$32.63	$41.13	$39.00	$36.63	–	–	–	$38.00

*The principal market is the New York Stock Exchange and prices are based on the Composite Tape. $1-2/3 par value common stock is also listed on the Midwest, Pacific and Philadelphia stock exchanges. As of December 31, 1986, there were 857,333 holders of record of $1-2/3 par value common stock.

**The principal market is the New York Stock Exchange and prices are based on the Composite Tape. As of December 31, 1986, there were 456,471 holders of record of Class E common stock. 1985 first and second quarter data have been adjusted to reflect the two-for-one stock split on June 10, 1985.

***The principal market is the New York Stock Exchange and prices are based on the Composite Tape. As of December 31, 1986, there were 540,297 holders of record of Class H common stock. Market prices were on a "when issued" basis prior to December 31, 1985.

Selected Financial Data

(Dollars in Millions Except Per Share Amounts)	1986	1985	1984	1983	1982
Net sales and revenues	$102,813.7	$96,371.7	$83,889.9	$74,581.6	$60,025.6
Earnings attributable to $1-2/3 par value common stock	$ 2,607.7	$ 3,883.6	$ 4,498.3	$ 3,717.3	$ 949.8
Cash dividends on $1-2/3 par value common stock	1,588.0	1,592.9	1,510.0	879.3	737.3
Dividend of Class E common shares	–	–	586.7	–	–
Dividend of Class H common shares	(.5)	572.1	–	–	–
Net income retained in the year	$ 1,020.2	$ 1,718.6	$ 2,401.6	$ 2,838.0	$ 212.5
Earnings per share attributable to $1-2/3 par value common stock	$8.21	$12.28	$14.27	$11.84	$3.09
Cash dividends per share of $1-2/3 par value common stock	5.00	5.00	4.75	2.80	2.40
Per share dividend of Class E common shares	–	–	1.90	–	–
Per share dividend of Class H common shares	–	1.94	–	–	–
Net income per share retained in the year	$3.21	$ 5.34	$ 7.62	$ 9.04	$0.69
Earnings attributable to Class E common stock (issued in 1984)	$ 136.2	$ 103.8	$ 5.7	–	–
Cash dividends on Class E common stock (issued in 1984)	25.9	12.4	1.2	–	–
Net income retained in the year	$ 110.3	$ 91.4	$ 4.5	–	–
Earnings per share attributable to Class E common stock	$2.13	$1.57	$0.16*	–	–
Cash dividends per share of Class E common stock	0.40	0.195	0.045*	–	–
Net income per share retained in the year	$1.73	$1.375	$0.115*	–	–
Earnings attributable to Class H common stock (issued Dec. 1985)	$ 190.0	–	–	–	–
Cash dividends on Class H common stock (issued Dec. 1985)	38.4	–	–	–	–
Net income retained in the year	$ 151.6	–	–	–	–
Earnings per share attributable to Class H common stock	$2.97	–	–	–	–
Cash dividends per share of Class H common stock	0.60	–	–	–	–
Net income per share retained in the year	$2.37	–	–	–	–
Average number of shares of common stocks outstanding (in millions):					
$1-2/3 par value common	317.6	316.3	315.3	313.9	307.4
Class E common (issued in 1984)	63.8	66.5	36.3*	–	–
Class H common (issued in December 1985)	63.9	–	–	–	–
Cash dividends on capital stocks as a percent of net income	56.5%	40.4%	33.7%	23.9%	77.9%
Expenditures for real estate, plants and equipment	$ 8,086.3	$ 8,047.9**	$ 3,595.1	$ 1,923.0	$ 3,611.1
Expenditures for special tools	$ 3,625.3	$ 3,075.0	$ 2,452.1	$ 2,083.7	$ 2,601.0
Cash and marketable securities	$ 4,018.8	$ 5,114.4	$ 8,567.4	$ 6,216.9	$ 3,126.2
Working capital	$ 3,920.3	$ 1,957.5	$ 6,276.7	$ 5,890.8	$ 1,658.1
Total assets	$ 72,593.0	$63,832.8	$52,144.9	$45,694.5	$41,397.8
Long-term debt and capitalized leases	$ 4,325.3	$ 2,867.2	$ 2,772.9	$ 3,521.8	$ 4,745.1

Financial data for years prior to 1986 have not been restated for the adoption effective January 1, 1986 of Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. The effect of adopting SFAS No. 87 was to increase net income for 1986 by $330.5 million or $0.96 per share of $1-2/3 par value common stock, $0.04 per share of Class E common stock and $0.34 per share of Class H common stock. Earnings and earnings per share attributable to common stocks in 1985 and 1984 have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985. Financial data for years prior to 1983 have not been restated for the adoption of Statement of Financial Accounting Standards No. 52, Foreign Currency Translation. The effect of adopting SFAS No. 52 was to reduce net income for 1983 by about $422.5 million or $1.35 per share of $1-2/3 par value common stock.

*Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

**Includes $1,948.7 million of net property acquired in Hughes acquisition.

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Chairman, President's Foreign Intelligence Advisory Board
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*Retired effective January 1, 1987
**Resigned effective December 1, 1986

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*Retired effective January 1, 1987

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General Motors do Brasil S.A.

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Associate General Counsel

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Treasurer

JOHN E. RHAME
Comptroller

RODERICK D. GILLUM
Secretary

STOCKHOLDER INFORMATION

The Annual Meeting of Stockholders will be held at 9:00 a.m. on Friday, May 22, 1987 in Detroit, Michigan.

It is expected that proxy material will be sent to stockholders beginning about April 17, 1987, at which time proxies for use at this Meeting will be requested.

Principal Offices
General Motors Corporation
(a Delaware Corporation)
3044 West Grand Boulevard
Detroit, Michigan 48202

767 Fifth Avenue
New York, New York 10153

Stock Transfer Offices
Morgan Shareholder Services Trust Company
30 West Broadway
New York, New York 10007-2192
(212-587-6285)

National Trust Company Limited
21 King Street, East
Toronto, Ontario M5C 1B3, Canada

National Trust Company Limited
1350 Sherbrooke Street, West
Montreal, Quebec H3G 1J1, Canada

THE FOLLOWING MATERIALS ARE AVAILABLE FOR DISTRIBUTION TO STOCKHOLDERS:

S.E.C. Form 10-K
Stockholders may obtain a copy of the General Motors Corporation Annual Report to the Securities and Exchange Commission on Form 10-K after April 1, 1987.

1987 Public Interest Report
GM's 17th successive annual accounting of its programs, progress, and goals in various areas of public interest will be available in a booklet, "1987 General Motors Public Interest Report," about May 1, 1987.

Tape Recording of 1986 GM Annual Report
A cassette tape recording of major portions of the 1986 Annual Report will be available after April 1, 1987 at no charge for distribution to handicapped persons.

Requests specifying the materials desired should be sent to:
General Motors Corporation
Room 10-260
General Motors Building
3044 West Grand Boulevard
Detroit, Michigan 48202
(313-556-2044)

PRINTED IN U.S.A.

GENERAL MOTORS CORPORATION, Detroit, Michigan 48202